

SOUTH AFRICAN RESERVE BANK
Prudential Authority

**Money Laundering, Terrorist Financing
and Proliferation Financing
Sector Risk Assessment
for the South African Life Insurance Sector**

December 2025

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Executive Summary

The South African life insurance (LI) sector is a central feature of and vital contributor to the national economy, offering essential financial products and services.

This sector risk assessment (SRA), conducted by the Prudential Authority (PA), provides a comprehensive evaluation of the money laundering, terrorism financing and proliferation financing (ML/TF/PF) risks in South Africa's LI sector covering a three-year (36 month) period from January 2022 to December 2024.

The SRA draws on a wide range of data sources and seeks to identify, assess, understand and enhance ML/TF/PF risk awareness across the LI sector in order to inform a risk-based compliance and supervisory approach and to contribute to South Africa's broader efforts to combat financial crime and ensure a more resilient financial system.

Inherent Risks

The main financial crime threats to the LI sector are fraud, corruption and bribery, tax evasion, and drug trafficking.

The main vulnerabilities are complex investment-linked and cash-value products, higher-risk customer exposures, including foreign politically exposed persons (who must always be treated as high-risk), domestic politically exposed persons where the institution's risk assessment indicates elevated risk, as well as certain foreign clients and non-profit organisations (NPOs), where risk indicators are present. These vulnerabilities are compounded by increasing reliance on non-face-to-face onboarding and third-party intermediaries.

As a result, the SRA has rated the inherent ML risk in the LI sector as medium-high, the inherent TF risk as medium-low and the inherent PF risk as low.

Inherent Risks	Rating
Money Laundering	Medium-high
Terrorism Financing	Medium-low
Proliferation Financing	Low

Mitigating Controls

Mitigating controls introduced by LIs, as well as supervisory measures implemented by the PA, including market-entry controls, targeted inspections, and remediation and administrative sanctions, together with outreach and awareness initiatives, have contributed to reducing the level of ML/TF/PF risk facing the sector.

Controls assessed across LIs reveal some deficiencies in governance, business risk assessments and the implementation of compliance frameworks, as well as a lack of consistent application of the risk-based approach across institutions. Smaller LIs tend to have more pervasive concerns in comparison to the life insurers that are more material and bear most of the asset size in the sector. Additional challenges include difficulties in the verification of beneficial ownership information, client and beneficiary screening, effective transaction monitoring, and ensuring the timely reporting of suspicious activities. Larger and smaller LIs have however made steady improvements since the first set of inspections in 2019.

The strength of the mitigating controls within the LI sector has therefore been rated as:

Mitigating Controls	Rating
Money Laundering	Adequate
Terrorism Financing	Weak
Proliferation Financing	Weak

Residual Risks

The overall residual ML/TF/PF risks in the South African LI sector is therefore rated as:

Residual Risks	Rating
Money Laundering	Medium
Terrorism Financing	Medium-low
Proliferation Financing	Low

1. Introduction

This third SRA conducted by the PA, provides a comprehensive assessment of the inherent ML/TF/PF risks within the South African LI sector for the period January 2022 to December 2024 (referred to as the 'review period'), that seeks to identify, assess and enhance awareness, deepen understanding of these risks and contribute to South Africa's broader efforts to combat financial crime and ensure a more resilient financial system.

The findings from the SRA are intended to inform life insurers of the specific ML/TF/PF risks associated with this sector, which should be considered when implementing targeted measures and controls to mitigate such risk, to ultimately contribute to the overall reduction of ML/TF/PF activity.

This report should also serve as a guide to regulators, supervisors and policymakers, notably the South African Reserve Bank (SARB), the Financial Intelligence Centre (FIC), the Financial Sector Conduct Authority (FSCA) and National Treasury of South Africa, by providing insights into the identified ML/TF/PF risks, which may inform future policymaking decisions.

Specifically, the SRA should assist in the application of risk-based supervisory measures based on a thorough understanding of threats, vulnerabilities and consequences at sectoral level, as well as an analysis of the effectiveness of existing mitigating controls.

Identifying, understanding and prioritising these financial crime risks should raise awareness within the sector and to ensure that life insurers allocate adequate resources and implement tailored controls to effectively manage their risk exposure.

2. The mandate of the Prudential Authority

In terms of Schedule 2 of the Financial Intelligence Centre Act 38 of 2001 (FIC Act), the PA is the designated supervisory body for LIs, which are classified as accountable institutions in terms of Item 8 of Schedule 1 of the FIC Act.

The PA's primary mandate as a FIC Act supervisor is to ensure compliance by LIs with the legal obligations imposed by the FIC Act, which are aimed at preventing and combating ML/TF/PF.

The PA is thus responsible for supervising LIs, to assess their level of compliance with their FIC Act obligations and improve their compliance behaviour, which should ultimately minimise the occurrence of ML, TF and PF activity within the sector.

Fundamental to the improvement of compliance behaviour is the promotion of the understanding of ML/TF/PF risks within the LI sector, while ensuring alignment by the sector with national legislation, the international standards as established by the Financial Action Task Force (FATF) and the relevant Insurance Core Principles (ICPs) developed by the International Association of Insurance Supervisors (IAIS).¹

The PA is also a regulator in terms of the Financial Sector Regulation Act 9 of 2017 (FSRA) and the Insurance Act 18 of 2017, that regulates the South African insurance industry, ensuring its financial soundness, adherence to good governance practices and effective risk management, including those related to financial crime risks.

Through its regulatory and supervisory activities, the PA aims to safeguard the integrity of the South African financial system, protect policyholders and ensure that the LI sector operates in a manner that is consistent with South Africa's commitment to international and domestic standards that seek to combat ML, TF and PF.

¹ See ICP 1 – Conditions for Effective Insurance Supervision; ICP 3 – Governance, Risk Management and Internal Controls; ICP 8 – Risk Management and Internal Controls; and ICP 9 – Supervision of Insurers.

3. Definitions

This SRA references the following key terms and definitions:

- *Money Laundering (ML)*: any person who knows or ought reasonably to have known that property is or forms part of the proceeds of unlawful activities and:
 - (a) enters into any agreement or engages in any arrangement or transaction with anyone in connection with that property, whether such an agreement, arrangement or transaction is legally enforceable or not; or
 - (b) performs any other act in connection with such a property, whether it is performed independently or in concert with any other person, which has or is likely to have the effect of:
 - (i) concealing or disguising the nature, source, location, disposition or movement of said property, its ownership or any interest which anyone may have in respect thereof; or
 - (ii) enabling or assisting any person who has committed or commits an offence, whether in South Africa or elsewhere:
 - (c) to avoid prosecution; or
 - (d) to remove or diminish any property acquired directly or indirectly as a result of the commission of an offence, shall be guilty of an offence;²
- *Terrorist Financing (TF)*: the act of collecting or providing property, a financial or other service, or economic support, directly or indirectly, with the intention that the property or services be used, or knowing that they may be used, in whole or in part, to carry out a terrorism act;³

² See section 4 of the Prevention of Organised Crime Act 121 of 1998.

³ See section 4 of the Protection of Constitutional Democracy Against Terrorist and Related Activities Act 33 of 2004.

- *Proliferation Financing (PF)*: an activity which has or is likely to have the effect of providing property, a financial or other service, or economic support, to a non-state actor, which may be used to finance the manufacture, acquisition, possessing, development, transport, transfer or use of nuclear, chemical or biological weapons and their means of delivery, and which includes any activity that constitutes an offence in terms of section 49A of the FIC Act;⁴
- *Risk*: a risk is a function of three factors – namely threat, vulnerability and consequence – and occurs when a threat successfully takes advantage of a vulnerability to produce a consequence;⁵
- *Threat*: activities, individuals or entities that have the potential to cause harm through ML/TF/PF, including criminal actors, terrorist groups, proliferators and their facilitators;
- *Vulnerability*: features within a sector that can be exploited by a threat or that may support or facilitate its activities (e.g. criminal actors), including any weaknesses or gaps in controls, sector-specific product vulnerabilities or systemic weaknesses within the sector;
- *Consequence*: the impact or harm that ML/TF/PF may cause to an institution, sector or country, including reputational damage, financial losses, societal harm and the undermining of national or international financial systems;
- *Mitigating Controls*: strategies, measures or actions put in place to reduce the likelihood or impact of risks associated with a particular threat or vulnerability, including laws, policies, procedures, technologies, guidelines, training programmes as well as regulatory or supervisory frameworks aimed at preventing, detecting or responding to risks effectively; the strength and effectiveness of mitigating factors and controls is determined by their ability to successfully address and mitigate the identified risks, where strength refers to the robustness, reliability and resilience of

⁴ See section 1 of the FIC Act.

⁵ See FATF 2024 National Risk Assessment Guidance.

these measures while effectiveness pertains to their actual impact in reducing the likelihood or severity of risks;

- *Inherent Risk*: the level of ML/TF/PF risk present in the sector before applying any controls; while existing controls may mitigate some risk, inherent risk represents the vulnerabilities intrinsic to the sector's operations; and
- *Residual Risk*: the ML/TF/PF risk that remains after AML/CFT/CPF mitigating controls have been applied to address inherent risk.

4. Methodology

4.1 Assessment approach

The methodology used in this SRA is based on FATF guidance, which considers risk as a function of three factors, namely threat, vulnerability and consequence.

This assessment is calibrated to South Africa's most recent national risk outputs, namely the 2022 National Risk Assessment (NRA) and subsequent TF/PF work, as well as to FATF Recommendation 1 updated to require jurisdictions and institutions to identify, assess, understand and mitigate ML/TF/PF risks.

The SRA provides a structured approach for identifying, assessing and managing ML/TF/PF risks within the LI sector and discusses the types of threats, vulnerabilities and mitigating controls applicable to the sector, to determine residual risk.

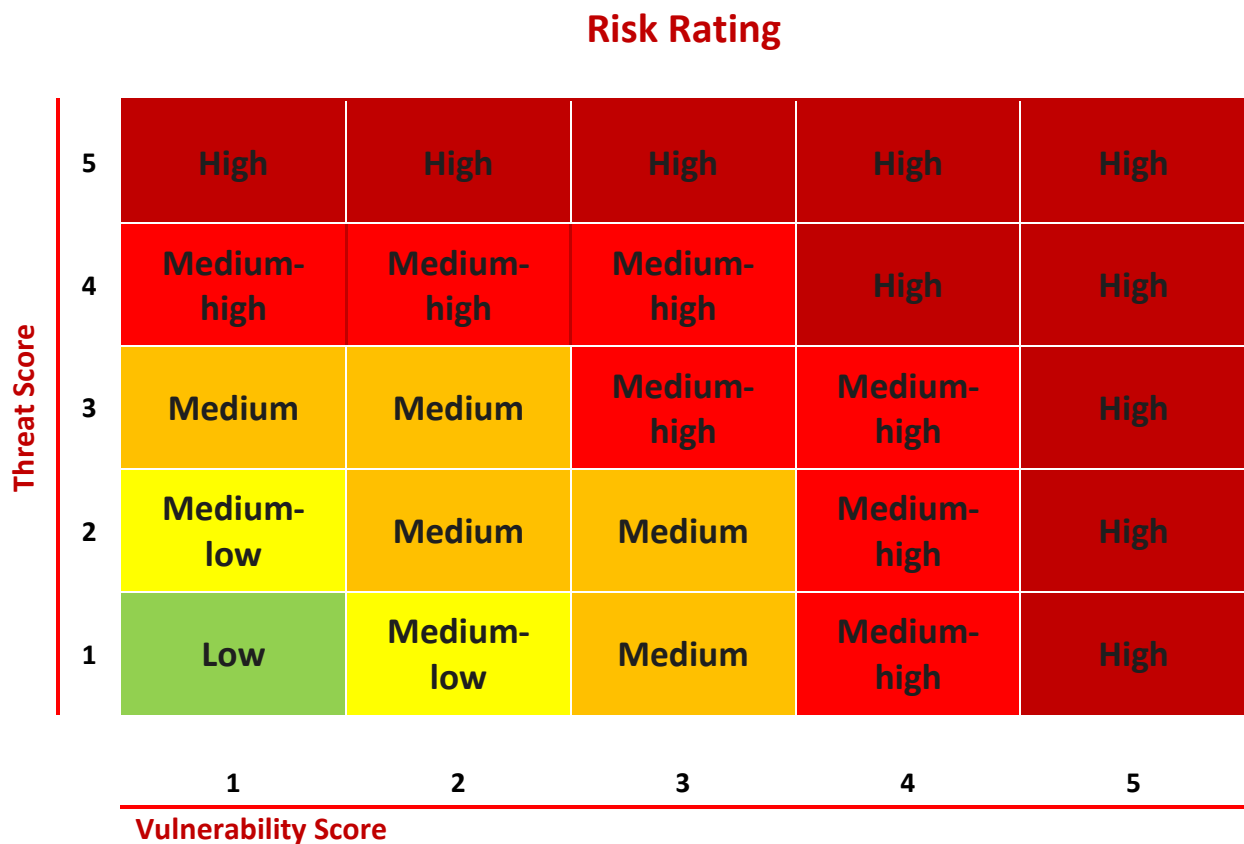
FATF Recommendation 6 and 7, guidance issued by the FATF, open searches for publicly available information as well as the FIC's Public Compliance Communication (PCC) 44A operational guidance was considered for the purpose of considering TF and PF risk, including TFS risk.

The assessment of risk in the LI sector is both qualitative and data-driven, and involves gathering extensive data from various sources, analysing this data and identifying the key threats, vulnerabilities and potential consequences associated with ML/TF/PF. The qualitative analysis allows for a nuanced understanding of these risks, considering factors such as the complexity of life insurance products and customer behaviour.

Additionally, given the concentration within the LI sector, the approach for the analysis in this SRA was to compare the top five life insurers with the rest of the industry.

The risk-rating categories, illustrated in Figure 1 have been considered to evaluate inherent risk as a function of threats and vulnerabilities, as presented in the heat map below:

Figure 1: Heat map



Based on the figure above, when the threat score (y-axis) and the vulnerability score (x-axis) converge in the heat map, the risk rating increases by one rating (e.g. a medium-high threat score and a medium-high vulnerability score = high risk score). This exemplifies the interaction between threats and vulnerabilities insofar as they maximise each other's impact in the overall inherent risk.

Risk Ratings

Risk ratings have been categorised as follows:

Risk Ratings:	High	Medium-high	Medium	Medium-low	Low
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Mitigating Control Ratings

Mitigating control ratings have been categorised as follows:

Mitigating Controls:	Non-existent	Weak	Adequate	Effective
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4.2 Assessment scope

This assessment aims to evaluate the ML/TF/PF risks within the South African LI sector during the review period, focusing on life primary insurers.

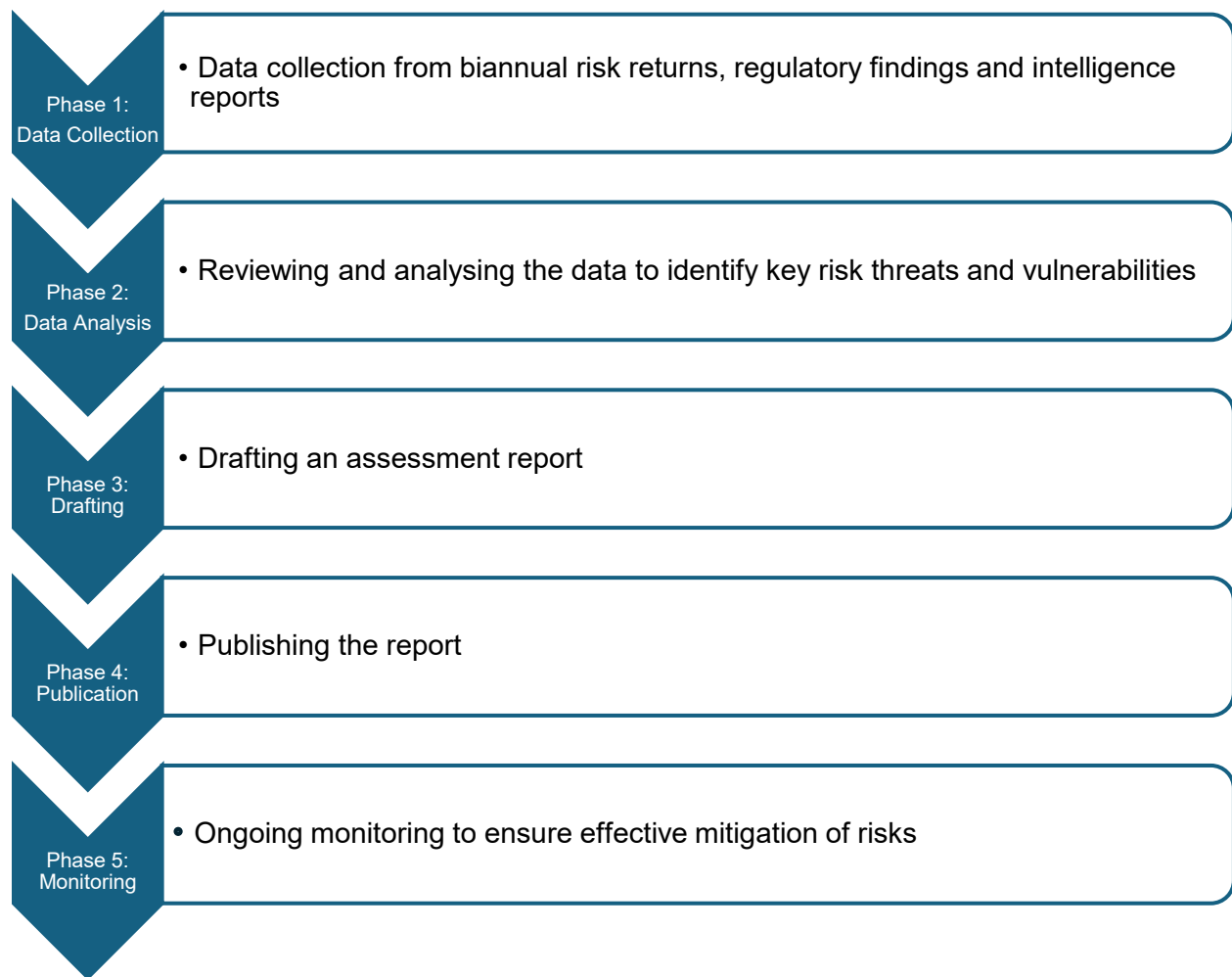
The SRA only focuses on the LI sector, as non-life insurers and reinsurers are not accountable institutions under the FIC Act⁶.

4.3 Assessment phases

This SRA was conducted in the following phases:

⁶ As a matter of good practice, reinsurers should, through their regular commercial due diligence, seek to transact only with those life insurers that have adequate AML/CFT/CPF compliance programmes in place. The due diligence process may involve collecting and assessing information about life insurers' AML/CFT/CPF compliance programmes before entering into such contracts.

Figure 2: Assessment phases



4.4 Data sources

The assessment draws on intelligence and data from a variety of sources over the review period to ensure a comprehensive and comparative analysis, and includes data from:

- the AML/CFT/CPF risk returns submitted to the PA;
- regulatory findings, including data from an analysis of compliance assessment outcomes, inspection reports and investigations conducted by the PA and other relevant supervisory authorities;
- financial crime intelligence, including data from the FIC and other law enforcement agencies, on financial crime typologies, trends and case studies specific to the LI sector;

- national and sectoral risk assessments, including the 2022 NRA and the 2024 TF NRA;
- business risk assessments submitted by specific life insurers to the PA to evaluate the inherent ML, TF, and PF risks at an institutional level;
- inspection reports issued by the PA, which highlight compliance deficiencies and gaps in the implementation and effectiveness of AML/CFT/CPF frameworks;
- thematic reviews conducted by the PA on life insurers;
- formal requests for information, including data submitted by the FIC and other law enforcement bodies to the PA;
- international financial crime reports, including reports from FATF and the IAIS, focusing on global insights on ML/TF/PF risks and emerging threats;
- publicly available information, statistics and articles from international organisations and authors; and
- policy and legislative reviews, including examinations of South African legislation, particularly the FIC Act as well as the directives, guidance notes and public compliance communications issued in terms thereof, to understand their implications for AML/CFT/CPF obligations within the LI sector.

4.5 Assessment participants

The SRA was conducted by the PA with data received from members of the LI sector, the State Security Agency and the FIC.

4.6 Limitations

While this SRA provides valuable insights into ML/TF/PF risks, some limitations may affect the completeness of the findings.

Notably, the assessment relies on information submitted by life insurers via risk returns, inspection reports, publicly available reports and open-source information.

Additionally, data quality may vary due to data completeness and the accuracy of self-reported information.

Furthermore, not all suspicious activities are identified or reported by life insurers, and criminals may employ other sophisticated methods to evade detection, resulting in undetected risks that are not reflected in this analysis.

Finally, South Africa is currently conducting an update to its ML/TF/PF NRA, and the findings from these assessments have not been published and thus could not be reflected in this SRA.

5. Overview of the life insurance sector

The South African LI sector is a vital component of the country's financial system, providing stability and protection against various insurable risks and comprises of institutions that provide a wide range of insurance policies or coverage for both natural and legal persons, with the industry divided into three main segments: LI, non-life insurers⁷ and reinsurers⁸. The LI market is notably concentrated, with the five largest life insurers collectively holding 71% of the sector's total assets.

LIs provide cover and guarantee payment to a designated beneficiary upon the death of the insured individual, in exchange for regular premium payments from the policyholder.

The LI industry is well-established in South Africa, boasting a high penetration rate compared to other African countries, with a penetration rate of 9.1% compared to the 3% average of the African continent.⁹

The sector offers a wide range of products, including investment-linked policies, products with guaranteed returns, annuities that pay a periodic income for life, endowment policies for individuals or institutions, employer-sponsored policies that pay a periodic income to employees, as well as pure-risk products that pay a lump sum or an annuity upon death, disability, long-term care or critical illness. These products play a crucial role in providing financial security to individuals and their families, supporting long-term savings and contributing to economic stability.

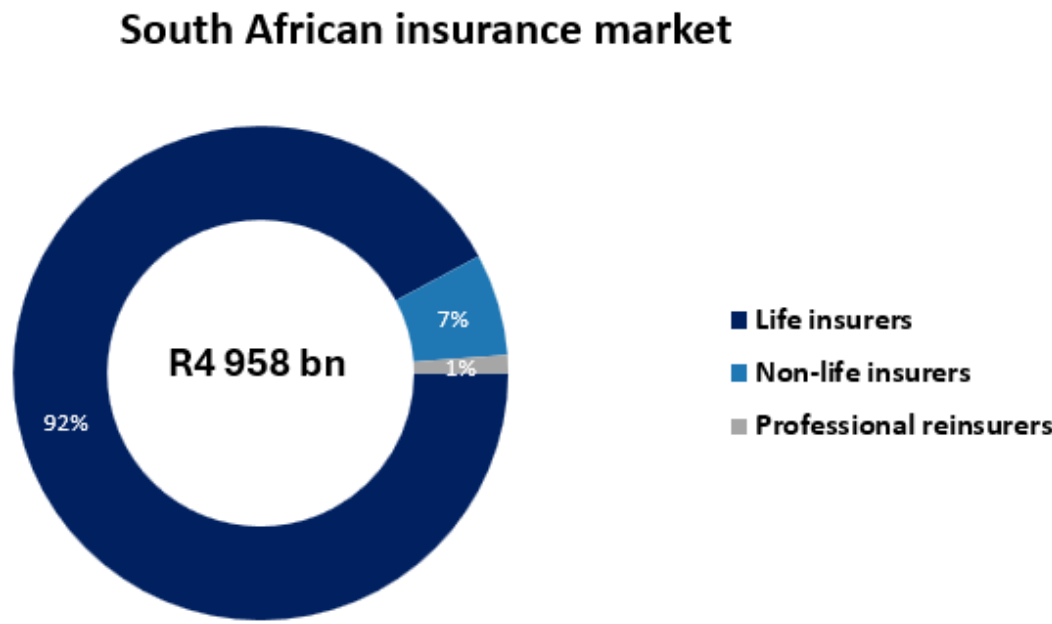
Growth in this sector is driven by increasing awareness of financial planning, economic stability and innovations in product offerings.

⁷ Non-Life (general insurance) covers property, casualty and liability risks and includes motor insurance, health insurance and home insurance.

⁸ Reinsurance involves insurers transferring portions of their risk portfolios to other insurance companies to mitigate potential losses.

⁹ See *Leveraging Emerging Trends to Drive Life Insurance Penetration in Africa*, International Insurance Society, 3 October 2024.

Figure 3: South African insurance market composition



As of December 2024, there were 85 licensed insurers holding long-term insurance licences (including life primary insurers, micro-insurers, reinsurers and cell captives). For purposes of this AML/CFT/CPF SRA, the risk analysis focuses on life insurers that operate as accountable institutions under the FIC Act. References to reinsurers/cell captives are included for market-context only where relevant.

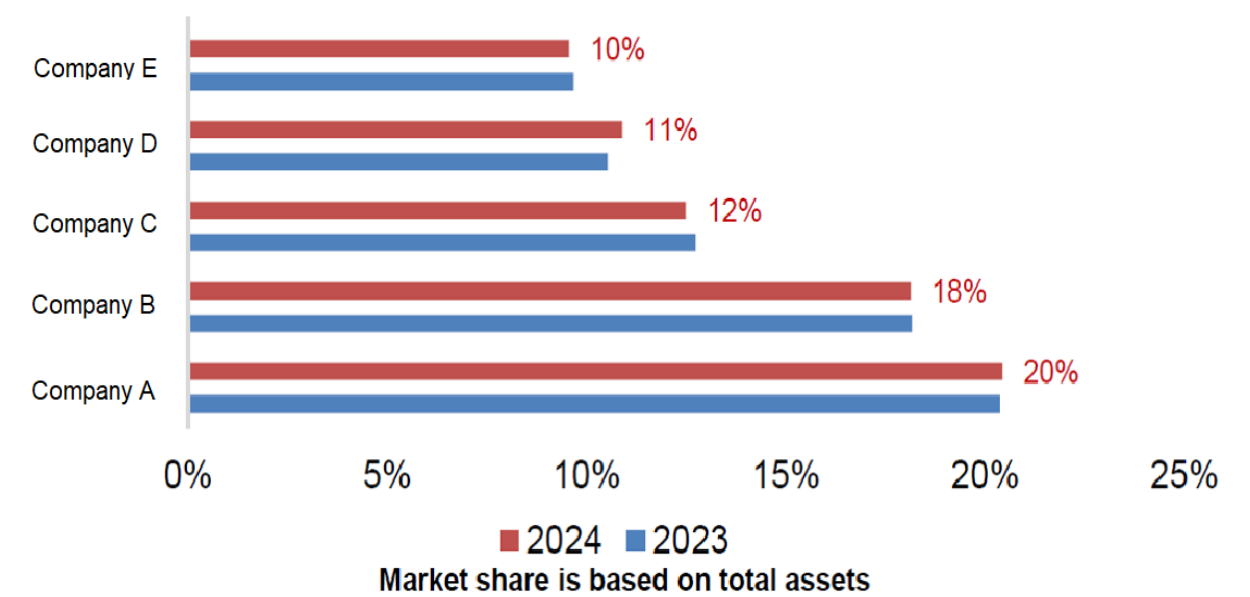
The LI sector has a total asset size of just over R4.9 trillion in December 2024 and year-on-year growth of over 11%.

Table 1: Licensed life insurers by category

Registered entities	June 2023	December 2024
Life primary insurers	61	59
Life cell captives	5	4
Life micro-insurers	10	11
Composite micro-insurers	4	3
Professional reinsurers	7	8
Total	87	85

The LI market is notably concentrated, with the five largest life insurers collectively holding 71% of the sector’s total assets. This dominance by the five largest LIs highlights their significant role in the stability and performance of the LI sector.

Figure 4: Largest life insurer by market size



6. Threats

6.1 Money laundering threats

South Africa's large and diversified economy, well-developed financial system and strategic geographic location, make it a prime target for illicit financial flows. The country faces significant ML threats, primarily stemming from predicate offences such as fraud, corruption, tax evasion and drug trafficking. High levels of organised crime exacerbate these threats, with criminals exploiting the vulnerabilities in both financial and non-financial sectors.

Although LIs present with lower ML risks than banks, laundering through these institutions is can be used as a means to disguise the origin and nature of illicit proceeds. This is typically done by buying, altering and surrendering insurance policies, and filing out insurance claims to obscure the source of the funds.

LIs are particularly vulnerable to ML due to the nature of their business, which includes purchasing policies with illicit funds and later surrendering or assigning them to create an apparent legitimate payout and using assignments, policy loans and early surrenders to transfer or extract value in ways that obscure the source of the funds.

The PA has evaluated the various forms of financial crimes and their associated risks to better understand the criminal threats within the LI sector, as informed by the outcome of the South African NRA of 2022 prior SRAs, the outcome of the FATF Mutual Evaluation Report from 2021, as well as the biannual risk returns submitted by LIs.

6.1.1 Fraud

Fraud is defined as unlawful and intentional misrepresentation which causes actual or potential prejudice to another. This can include various forms of deceit, such as false statements, concealment of information or any other deceptive practices intended to gain an unfair advantage or cause harm to another party.

Fraud remains the most prevalent predicate crime in the LI sector, particularly in the form of deceptive and dishonest claims, which affect most LIs, as confirmed by the PA’s 2022 SRA.¹⁰

Fraudulent claims remain a key concern, as evidenced by the 16 520 cases reported in 2024 (up by 26% from 2023) in the LI and investment company sectors, resulting in losses of R131.6 million (down from R175.9 million in 2023).

Fraudulent activities in this sector include a wide range of deceptive practices, with the largest drivers being remuneration fraud (9 904 cases), fraudulent life claims (5 505 cases) and fraudulent withdrawals/disinvestments.

Notably, there were 38 ‘murder for money’ cases in 2024, while deceased-estate fraud rose to 161 incidents. These patterns reinforced life insurers’ inherent risk exposure at payout, early surrender/withdrawals and claim stages

Case study: Fraudulent claim
<p>In May of 2023, a 34-year-old woman (X) was accused of faking her husband’s death to claim from a life insurance policy. It is alleged that X obtained a fraudulent death certificate from the Department of Home Affairs claiming that her husband had died in a fire. She later claimed the life policy. Subsequently, in April 2023, X and her ‘allegedly deceased husband’ were arrested when found in possession of a stolen car in Hammanskraal. It is alleged that the couple killed X’s former boyfriend and father to her daughter and burned him in their home. The couple is facing charges of premeditated murder, defeating the administration of justice as well as fraud.</p>

¹⁰ See the PA’s Sector Risk Assessment (SRA) of money laundering, terrorism financing and proliferation financing (ML/TF/PF) risk in the banking sector, July 2022.

6.1.2 Corruption and bribery

Corruption and bribery crimes involve the abuse of entrusted power or authority for personal gain, typically through the solicitation or acceptance of bribes, kickbacks or other illicit payments. Corrupt officials and individuals may also use shell companies, nominee accounts and complex financial transactions to conceal the illicit origin of funds and avoid accountability.

South Africa continues to face elevated corruption risk with Transparency International's 2024 Corruption Perceptions Index¹¹ rating South Africa at 41/100. Corruption proceeds—including those linked to state capture—have been associated with high-value procurement and large public-sector contracting. Evidence and analysis linked to the State Capture Commission¹² estimates tens of billions of rand in tainted public spending.

Within the LI sector, proceeds of corruption can surface through product and life-cycle features rather than payment velocity. Investment-type life products, for example single-premium endowments or unit-linked policies, may be used for medium-term placement and integration where the source(s) of funds/wealth checks are superficial or where large one-off premiums are not challenged. Third-party premium payments by employers, related companies, family members or trusts can obscure the true controller or intended beneficiary of policy value. Policy events such as assignments, beneficiary changes, policy loans and early surrenders create additional avenues to transfer value to associates and to exit funds with an apparent insurance provenance.

Given the long product horizons typical of LI, exposure to PEPs and their close associates is material in the context of South Africa. Without robust event-triggered CDD at change events and before payout, these vulnerabilities are amplified. Where elements of onboarding, premium collection, or customer interaction are performed by intermediaries, risk may increase if oversight, file testing, and governance over delegated activities are inconsistent. Crucially, the LI's AML/CFT obligations do not disappear because an

¹¹ <https://www.transparency.org/en/cpi/2024/index/zaf>

¹² Judicial Commission of Inquiry Report into allegations of State Capture, Corruption and Fraud in the Public Sector, including organs of state, also known to the public and the media as the Zondo Commission. Chairperson: Justice R.M.M. Zondo, Chief Justice of the Republic of South Africa. Part VI Vol. 4: Summary of Recommendations: Page 174-176. https://static.pmg.org.za/State_Capture_Commission_Report_Part_VI_Vol_IV.pdf.

intermediary is involved. Where reliance on a third party is permitted, ultimate responsibility remains with the insurer.

Accordingly, inherent risk is higher for investment-type products than for pure-risk cover¹³. Residual risk is dependent on the demonstrated strength of the source(s) of funds/wealth verification for high-value once-off premiums, controls over third-party premium payers, enhanced due diligence (EDD) for PEPs and their close associates, as well as consistent event-triggered CDD at beneficiary changes, assignments, loans, surrenders and before payout, supported by continued risk-based intermediary oversight and quality assurance testing.

6.1.3 Tax evasion

Tax evasion involves the deliberate non-payment or underpayment of tax by individuals, legal persons or arrangements. It includes concealing or misrepresenting income, overstating deductions, and hiding assets domestically or offshore. As a predicate offence to ML, tax evasion generates illicit proceeds that are then placed, layered and integrated into the formal economy.

In South Africa, the risk environment is shaped by the extensive use of cross-border structures and professional facilitators, which was highlighted by investigations such as the Panama Papers and the Paradise Papers, and by subsequent actions taken by the South African Revenue Service (SARS). These investigations showed South African taxpayers using offshore entities and intermediaries to conceal assets and income.¹⁴

In parallel, life insurers are in the scope of the Automatic Exchange of Information Regime. Under the Common Reporting Standard (CRS) and the United States (US) Foreign Account Tax Compliance Act (FATCA), South African life insurers that issue or make payments on cash-value insurance contracts or annuity contracts, regarded as reporting financial institutions that must identify and report certain account information to

¹³ For purposes of this SRA, **pure-risk cover** refers to life policies that provide risk benefits only (i.e., benefits triggered by death, disability, illness or similar insured events) and do not embed a savings/investment accumulation component (e.g., term life, funeral, disability and credit life cover).

¹⁴ See <https://businesstech.co.za/news/wealth/124835/sars-going-after-south-africans-named-in-panama-papers>

SARS. These reporting duties are designed to deter and detect cross-border tax evasion that could misuse insurance contracts.¹⁵

Within the LI sector, exposure is concentrated in cross-border elements as well as investment-linked and single-premium products which allow for value extraction. Risks include the placement of untaxed income via large once-off premiums into endowment or unit-linked policies, third-party premium payments by companies or trusts that obscure the source(s) of funds and the controlling person(s), and value transfer through assignments, beneficiary changes, policy loans and early surrenders.

Offshore policy structures and ‘insurance wrappers’¹⁶ may increase ML/TF/PF vulnerability where the policy is used primarily as a legal investment container (rather than for protection benefits), particularly if it adds layers between the underlying assets and the beneficial owner. SARS has previously addressed insurance wrapper arrangements in guidance and rulings, underscoring the tax risks associated with such products.¹⁷

6.1.4 Drug trafficking

Organised crime groups may exploit the LI sector by using complex ownership structures, including trusts and shell companies, to obscure the origin of illicit funds from various predicate crimes, including drug-trafficking offences.

Drug trafficking remains a major concern for South Africa. It is one of the most prevalent forms of transnational organised crime that has significantly proliferated in South Africa over the last decade, with the South African Police Service reporting 49 015 drug-related crimes for the fourth quarter of 2024.¹⁸

¹⁵ See <https://www.sars.gov.za/businesses-and-employers/third-party-data/fatca-and-crs>

¹⁶ An insurance wrapper is a financial structure, typically a long-term life insurance policy (like an endowment policy or sinking fund), that holds an investor's assets within it. The policyholder transfers ownership of their liquid assets (e.g., shares, bonds, cash, mutual funds) to the insurance company, which then legally owns the assets on their behalf until the policy matures or the insured person dies.

¹⁷ See <https://www.accountancysa.org.za/sars-comments-on-private-banking-insurance-wrappers>

¹⁸ See Republic of South Africa Police Record Crimes Statistics (Q3 of 2024/2025 Financial Year), at <https://www.saps.gov.za>

South Africa has evolved into a consumer, producer and transit country for drugs, driven by socio-economic factors such as poverty, inequality and unemployment. The rising demand for drugs has led to a surge in drug manufacturing, smuggling and consumption, posing significant threats to national security, economic growth and sustainable development.

The illicit drug trade generates substantial illicit cash proceeds, heightening ML risks and negatively impacting the country's economic development. Drug trafficking, intertwined with other forms of organised crime, drives illicit activities such as wildlife and human trafficking. Organised crime syndicates, linked to foreign networks, control the drug trade and fuel violence in gang-contested areas.

While South Africa has traditionally been a transit and consumer country, the proliferation of narcotics laboratories indicates its growing role as a producer. Cannabis, methaqualone, *nyaope* and crystal methamphetamine ('tik') are prevalent, with *nyaope* and tik particularly concerning due to their widespread abuse by children and teenagers.¹⁹

Other predicate crimes such as the smuggling and trafficking of illicit goods and contraband, and other violent crimes, pose additional threats to the LI sector, as demonstrated in the case studies hereunder.

Case studies: International insurance cases linked to drug offences.

Case study 1 – Intermediary collusion

A customer (X), later arrested for drug trafficking, made a financial investment in a life insurance product of USD 250,000 through an insurance broker. It is reported that X delivered the USD 250,000 in three cash instalments to the broker. The broker did not report the cash delivery and deposited the instalments into a bank account, which raised no suspicion because the broker was known to the bank as linked to the insurance sector. The broker then paid the insurer using three cheques from the

¹⁹ See Africa Organized Crime Index 2021 (OCINDEX).

broker's own account totalling USD 250,000, thereby avoiding raising suspicion with the insurer.²⁰

Case study 2 – Agent collusion and “policy cycling”

A drug trafficker (X), whose spouse (Y) was a part-time insurance agent, used proceeds of illegal activity to purchase multiple insurance policies and invest in businesses (including a restaurant). The investigation identified risk indicators including a substantial increase in monthly premiums, multiple withdrawals, and the use of withdrawal proceeds to pay premiums on other existing policies, including advance payment of premiums (up to a year) on most policies. The investigation subjected X, Y and X's mother to scrutiny as part of the case.

Case study 3 – Early cancellation

A drug trafficker (X) purchased a life insurance policy valued at USD 80,000 through an agent, using a cashier's cheque. The investigation indicated X made it known that the funds used were proceeds of drug trafficking and that the agent charged a significantly higher commission. Within three months, the investigation found that X cashed in (cancelled) the policy.

Case study 4 – Drug proceeds placed into insurance investments

During a major narcotics trafficking investigation, information indicated that narco-traffickers placed drug proceeds into investments in the insurance industry, with policies identified in Channel Island insurance companies. The investigation determined that a network of insurance brokers deposited drug proceeds into investment accounts on behalf of traffickers, and financial institutions filed SARs relating to structuring and suspicious activity. The investigation reported approximately USD 9.5 million seized as proceeds of narcotics trafficking.²¹

²⁰ <https://www.iais.org/uploads/2022/01/211111-Application-Paper-on-Combating-Money-Laundering-and-Terrorist-Financing.pdf>

²¹ https://www.fincen.gov/system/files?file=sar_report%2Fsar_tti_05.pdf

6.2 Terrorism financing threats

While South Africa's national TF risk has increased, sector-specific evidence does not indicate heightened TF abuse of LI products; accordingly, the LI sector's TF threat is assessed as low with medium-low vulnerabilities, yielding medium-low inherent TF risk. TF threats are both external and internal. Terrorist groups abroad such as Al-Shabaab, the Islamic State of Iraq and the Levant (ISIL), ISIS Mozambique, ISIS Democratic Republic of Congo and ISIS Somalia have been reported to have operatives in South Africa actively raising funds. Domestically, reports indicate that South African nationals have travelled to conflict zones or engaged in fundraising activities for external terrorist groups. Additionally, right-wing extremist groups such as the Afrikaner Resistance Movement and the National Christian Resistance Movement pose increased local TF risks.

While direct cases of TF abuse within South Africa remain limited in the LI sector, the 2024 TF NRA and global studies have identified several sectoral vulnerabilities, particularly concerning non-profit organisations (NPOs), PEPs and the use of complex legal structures.

6.2.1 TF product-related risk

The LI sector faces significant risks stemming from the inherent characteristics of certain products and the ways in which they can be exploited:

- *Anonymity and product complexity:* Investment-linked LI policies and cash-value products can obscure fund flows, making it difficult to trace the origins and destinations of illicit funds. The layering of funds through premium payments and policy loans further complicates detection. The inherent flexibility in LI products, such as the ability to transfer ownership, change beneficiaries or surrender policies, can also be exploited for TF purposes.
- *Use of complex legal entities and arrangements:* Legal entities and arrangements are often used to hold LI policies, concealing beneficial ownership (BO) through complex entities, including trusts and shell companies, and complicating efforts to detect links

to terrorist networks. As of December 2024, the sector maintained relationships with 1 279 high-risk domestic trusts and 152 high-risk foreign companies, potentially increasing the risk of abuse for TF purposes.

- *Policy loans and early surrenders:* Terrorism financiers may exploit policy loans or early surrenders to liquefy funds quickly, using these transactions to integrate illicit money into the financial system while bypassing traditional scrutiny.

6.2.2 TF Customer risk

Certain client profiles and geographic connections heighten the degree of TF risk:

- *NPOs:* Those operating in regions affected by terrorism are considered as particularly vulnerable to TF. As of December 2024, there were 1 508 NPO clients within the LI sector, 15 of which were classified as high-risk and 151 as unregistered, the latter may present greater vulnerabilities due to unknown risks, which can potentially be exploited to funnel funds under the guise of charitable donations, the most commonly exploited client type for TF within the LI sector.

Key potential NPO risks remain and include:

- *The purchase of policies using NPO funds:* NPOs may use donor funds to purchase LI policies which are later surrendered or used to transfer funds to third parties under the guise of legitimate payouts.
- *The use of LI for wealth transfer:* Policies purchased by, or on behalf of, NPOs can be used to move funds across jurisdictions, particularly when beneficiaries are located in high-risk regions.
- *Refund schemes and overpayments:* Similarly to ML schemes, excess premium payments by NPOs followed by refund requests can be exploited to integrate illicit funds into the financial system.

- *The abuse of beneficiary designations:* LI policies that allow for flexible beneficiary changes without adequate due diligence checks can be exploited to redirect funds to terrorist affiliates without raising immediate red flags.
- *Complex legal entities:* Complex legal entities, including trusts and shell companies, hinder the clear identification of beneficial owners, complicating efforts to detect links to terrorism networks.
- *Politically exposed persons (PEPs):* Life insurers are required to screen policyholders, premium payers, beneficiaries, assignees, controlling persons and authorised representatives against domestic PEPs (DPEPs), foreign politically exposed persons (FPEPs) and the United Nations (UN) Targeted Financial Sanctions List.

As at the Q4/2024, sector-screening inventories recorded 8 097 DPEPs and 180 FPEPs across reporting life insurers, with 2 495 DPEPs classified as high-risk.

Risk returns submitted to the PA confirmed that there were no positive matches between these DPEP/FPEPs and the UN Targeted Financial Sanctions List designations. Where screening produced alerts, life insurers reported them as false positives following investigation and disposition, confirming no known TFS breaches.

- *Foreign clients and high-risk jurisdictions:* The LI sector's foreign client base and transactions with high-risk jurisdictions increases its potential exposure to TF flows. Inadequate geographic risk assessment practices may leave institutions vulnerable.

The LI sector had more than 520 000 foreign clients as of Q4/2024, with the majority presenting minimal TF risk. However, foreign clients from, or transacting with high-risk jurisdictions, pose increased TF vulnerabilities for the sector due to the sheer propensity for such channels to be abused.

Notably, following the demise of the IS Caliphate in Syria and Iraq, there has been a decentralisation of activities and solicitations of support, including fund raising, to regions that were not particularly affected, including in central and southern Africa.

IS-linked terrorism activities may be connected to jurisdictions such as the Democratic Republic of Congo and Mozambique. Similar concerns exist regarding the activities of al-Shabaab in East Africa.

South Africa hosts refugees and asylum seekers and has established émigré and diaspora communities from countries associated with terrorism, including the Democratic Republic of Congo, Mozambique and Somalia. The 2024 National Terrorist Financing Risk Assessment notes that these communities can include elements involved in the facilitation, recruitment and fundraising, and that South Africa must ensure its territory and financial system are not used to support terrorism elsewhere,²² with the channels most exposed to TF identified as the misuse of remittance and informal money or value transfer services, cash couriers, weaknesses at borders and in documentation systems, the exploitation of certain NPOs that send funds to high-risk areas, and the use of crypto-assets and online crowdfunding to raise and move funds.

Based on the public sources reviewed and the 2024 TF NRA, there are no identified LI products that are a preferred channel for terrorism financiers in South Africa, nor is there any known criminal investigation linking a South African LI to TF. Accordingly, there is no evidence at present of heightened TF risk specific to South African LIs.

LIs must nevertheless maintain effective TFS screening across policyholders, premium payers, assignees and beneficiaries, and must apply event-triggered CDD at beneficiary changes, assignments, loans, surrenders and before payout, to continue their effective mitigation of the ever-present TF risks.

6.3 Proliferation financing threats

PF poses a significant risk to international peace and security, enabling the proliferation of weapons of mass destruction and related materials by rogue states, non-state actors and terrorist organisations. As with TF, illicit actors may exploit the LI sector for the purposes of PF.

²² See www.ic.gov.za/wp-content/uploads/2024/06/National-risk-assessment—Terrorist-financing-national-risk-assessment-2024.pdf

PF is a growing concern for financial institutions globally, and while the LI sector is not typically associated with PF, LI must nonetheless be aware of PF risks and take appropriate measures to mitigate such risks in light of increasing international scrutiny and regulatory expectations.

The LI sector's potential exposure to PF risks arises from several factors:

- *Complex financial products:* The complex nature of certain LI products, such as investment-linked policies, can be exploited to move funds through the financial system. Proliferation financiers may use these products to layer and obscure the origins of funds intended for proliferation.
- *Beneficiary payments and policy loans:* LI policies allow for the designation of beneficiaries who may be located in high-risk jurisdictions or associated with entities involved in proliferation activities. Additionally, policy loans can be used to extract funds from the financial system without raising immediate suspicion.
- *Lack of awareness:* Given that PF is a relatively less understood risk compared to ML and TF, there may be a lack of awareness within the LI sector, which could result in inadequate controls and monitoring systems, making it easier for proliferation financiers to exploit the sector.

While the risk of PF in the LIs sector may be low compared to other sectors such as banks, the potential consequences of PF if it does occur, can be severe.

7. Vulnerabilities

Vulnerabilities represent weaknesses, deficiencies or gaps that can be exploited by threats, including weaknesses in controls, product vulnerabilities, or systemic weaknesses. By identifying and analysing the factors that contribute to these vulnerabilities, the understanding of the systemic risks and challenges associated with illicit finance can be improved, thereby informing the development of targeted risk mitigation strategies.

This analysis examines the vulnerabilities identified within the LI sector and is primarily based on the data submitted through the bi-annual risk returns received during the review period.

7.1 Product risks

Products and services encompass a wide range of financial offerings provided by the LI sector in South Africa. As defined by FATF, LI products and services are understood as contracts primarily designed to financially protect the customer/policyholder and their related third parties (who include the insured, the beneficiary/ies of the contract and the beneficial owners) against the risk of an uncertain future event such as death or critical illness. Related third-party beneficiaries may be a policyholder or another nominated or designated beneficiary and can be a natural person as well as a legal entity or a legal arrangement. LI products can also be bought as investment or saving vehicles to support estate planning or pension plans.²³

7.1.1 LI products and services

Most LI products provided in South Africa are long-term and pay out only on a verifiable event such as death, disability or retirement. Some products include savings or investment components that may allow withdrawals, surrenders, loans or assignments, with policies written on an individual or group basis.

²³ See <https://www.fatf-gafi.org/content/dam/fatf-gafi/guidance/RBA-Life-insurance.pdf.coredownload.pdf>.

Products and services form the core of the LI sector's activities and present different illicit finance-related risks. An institution's exposure to ML/TF/PF risks may be elevated depending on a particular product or service offered, client/beneficiary transparency, complexity, potential for intermediation, settlement times and terms, and the ability to affect cross-border fund flows.

Overall, the nature and level of ML/TF/PF risks associated with LI products is generally lower compared to the products offered by other institutions in the financial sector. Many LI products lack the flexibility to be the primary vehicle of choice for money launderers. However, there is still a risk that the funds used to purchase LI products may be the proceeds of crimes. There is also a risk, albeit limited, that the funds withdrawn may be used for TF/PF purposes. Furthermore, these products and services still possess inherent attributes that can heighten their susceptibility to illicit financial crime risks.

Complex, investment-oriented products are concentrated in large composite LIs and in investment-linked life companies, including those distributed through independent financial advisers.

Small insurers and assistance-business writers predominantly offer pure-risk and funeral lines, with limited liquidity and standardised benefits. Where a smaller insurer offers an investment component, this is typically through white-label or partnership arrangements underwritten or administered by a larger entity.

The following LI products were rated based on their exposure to ML/TF/PF:

- **Pure-risk cover products:**

(including term life, group risk, disability and critical illness cover)

Typical providers: All segments, with a larger share of individual term life and group risk written by large insurers.

Risk assessment: There is low risk for ML/TF/PF as payouts depend on defined insured events, transaction flexibility is limited, and premiums are regular and predictable.

Key controls: Event-triggered CDD at claim stage and before payout, verification of beneficiaries and bank details, and screening of all relevant parties.

- **Retirement savings and voluntary pension contributions:**

(including retirement annuity-type policies)

Typical providers: Mainly large insurers with smaller participation through umbrella or group arrangements administered by large groups.

Risk assessment: There is low risk for ML/TF/PF due to long accumulation horizons, limited access before retirement and structured annuitisation.

Key controls: Clear rules on early withdrawals and portability, verification of receiving funds or annuity providers, and tax reporting where applicable.

- **Endowments and investment-linked policies:**

(including single-premium endowments and unit-linked contracts)

Typical providers: Large insurers and specialist investment-linked life companies, with distribution through independent financial advisers, tied agency networks and bancassurance.

Risk assessment: There is high risk for ML/TF/PF due to large one-off premiums, surrender and loan features, assignments and beneficiary changes that increase placement and value-transfer risk.

Key controls: Source(s) of funds/wealth verification for high-value one-off premiums, controls over third-party premium payers and controlling persons, event-triggered CDD at beneficiary changes, assignments, loans, early surrenders and before payout, and ongoing sanctions screening of policyholders, premium payers, assignees and beneficiaries.

- **Capital redemption policies and investment-focused contracts:**

Typical providers: Large insurers and investment-linked life companies, with limited participation by smaller insurers.

Risk assessment: There is high risk for ML/TF/PF due to the absence of an insured life in some structures, flexible contribution and encashment as well as transferability that all increase misuse potential.

Key controls: Strict onboarding and payment-instrument rules, prohibition or tight restriction of cash or non-transparent funding routes, senior approval for high-risk transactions, enhanced monitoring of initial and subsequent contributions, and independent verification of destination accounts at encashment.

7.1.2 LI product attributes

The SRA assessed the potential vulnerabilities associated with LI products and services through the following attributes of the products and services offered by life insurers:

- *Complexity*: The complexity of certain financial products can be exploited to conceal illicit activities. Complex financial instruments, such as those used in trade finance transactions, are harder to understand and monitor effectively.
- *Potential for intermediation or transferability*: LI products or services that can be transferred to a third party or used by intermediaries in transactions, increase the complexity and add layers which can obscure the origins and destinations of funds as well as the identities of the beneficial owners. Provisions for changes in policyholder ownership or collateral pledging, present an increased risk.
- *Convertibility*: The ease with which an LI product can be converted into other forms of assets, such as different currencies or commodities, increases risk as it facilitates illicit finance through various markets and forms, obscuring the illicit origins.

- *Anonymity*: Certain LI products and services may provide degrees of anonymity to their users, which shields an individual's identity, making it more challenging to trace illicit activities.
- *Cross-border features*: LI products that facilitate, or are involved in, cross-border transactions are particularly risky because they can be used to move funds to or from high-risk jurisdictions, complicating regulatory oversight and enforcement, and increasing the risk of misuse.
- *Settlement times*: The less time it takes for a transaction to be processed, the higher the risk that a product or service will be abused. Shorter settlement times can provide opportunities for criminals to manipulate or reverse transactions to their advantage before they are detected.
- *Early surrender*: Some LI products, such as certain types of insurance policies or investments, allow for early surrender, where the customer can terminate the product and receive a payout. This feature can be exploited by investing illicit funds and then quickly withdrawing such funds as seemingly legitimate money. Policy loans and early surrender features, for example, may allow clients to liquidate funds, often bypassing standard due diligence.
- *Premium size*: LI products that allow for large lump-sum payments, such as cash-value and investment-linked products, provide an avenue for layering illicit funds.
- *Policy termination*: Certain conditions for terminating contracts and repayments may allow policyholders to withdraw or transfer large sums of money with limited scrutiny, increasing risks.
- *Savings component*: An LI product with a savings element may increase risks as it may allow policyholders to make substantial contributions and later withdraw funds as legitimate savings, providing opportunities to layer and integrate illicit money into the financial system.

7.1.3 The use of cash

The ability to use cash has also been associated with increased ML/TF/PF risks. The use of cash in the LI sector has, however, decreased over the years and is minimal, as the majority of products underwritten by LIs is designed in such a way that they cannot accept cash. Funds are received from policyholders by way of debit orders, and payments to beneficiaries are conducted by electronic fund transfers. However, cash reporting challenges are experienced when policyholders use non-descriptive or incorrect narrative on deposit slips at the bank or at automated teller machines.

LIs that do accept cash have implemented controls to monitor such transactions, including the following red flags:

- multiple cash deposits over a specified period of time;
- unmatched cash deposits where the depositor identifies himself/herself and requires a withdrawal;
- excessive cash deposits;
- payments by customers of a minimum of R100 000 across all policies for the past 30 days where more than 50% of the R100 000 was paid in cash; and
- the settlement of annualised premiums in cash, which is not expected in relation to the nature of the business or knowledge of the customer.

7.1.4 New technologies

The most material technology shifts in the South African LI sector are digital distribution, non-face-to-face onboarding, straight-through underwriting and claims processing, the extensive use of third-party data and screening vendors, and the migration of core systems and analytics to cloud platforms. These changes improve speed and the customer experience, but they also influence where and how ML/TF/PF risks can arise.

Non-face-to-face onboarding amplifies identity risks such as synthetic or stolen identities and impersonation during video or document verification. Customer portals and mobile applications introduce account takeover risks that can be used to change beneficiaries, bank details or contact information shortly before a surrender, loan or claim payout.

Third-party premium payments made through digital channels can obscure the true controller of funds if source(s) of funds/wealth checks are weak.

Automation in underwriting and claims increases straight-through rates, which is positive for customers but can reduce human error if event-triggered CDD is not embedded at beneficiary changes, assignments, loans, early surrenders and before payout.

TFS screening technology also creates new control dependencies, for example fuzzy-matching thresholds, list-update frequency and batch versus real-time processing, which can affect TFS effectiveness.

Most South African LIs do not issue blockchain-based policies and do not accept virtual assets for premiums or claims. The relevant exposure is therefore indirect. Customers may fund policies with proceeds that originated from pseudonymous virtual-asset activity or may request payouts to newly added accounts shortly after converting virtual assets to fiat elsewhere.

The appropriate response is prohibition or tighter restrictions of virtual-asset funding routes in the RMCP, enhanced source(s) of funds and wealth checks for high-value once-off premiums, and clear rules on acceptable funding instruments and payout destinations.

7.2 Customer risks

Customer risks in the LI sector stem from the varied nature of the client base. Certain customer types may present higher risks due to limited transparency or complex financial arrangements, which can make it more difficult to detect and prevent the misuse of LI products for illicit purposes.

7.2.1 Customer base

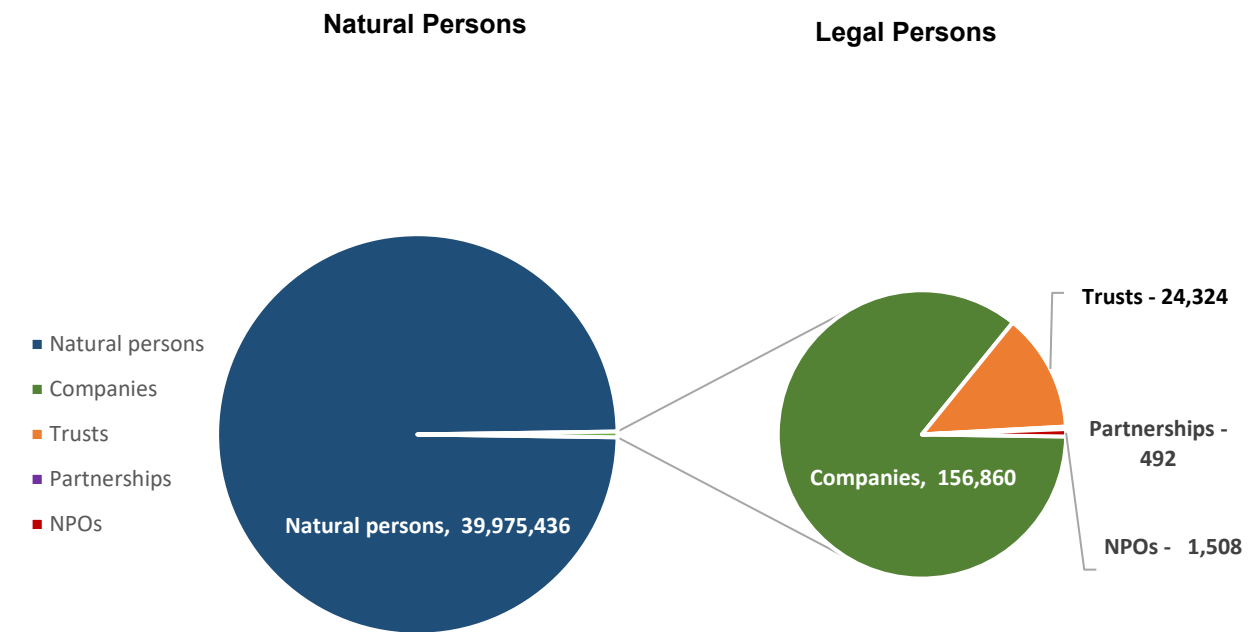
As of December 2024, the LI sector maintained a customer base of approximately 40 million customers, with the top five biggest LIs collectively holding a 37.61% share of the total customer base and the remainder of the LI sector accounting for 62.39%.

Table 2: Life insurance sector customer base

Period	Top 5 LIs	% of total	Rest of LIs	% of total	Industry Total
Q2/2022	23 008 962	36.34%	40 299 382	63.66%	63 308 344
Q4/2022	19 392 344	37.98%	31 665 435	62.02%	51 057 779
Q2/2023	15 392 092	36.69%	26 565 923	63.31%	41 958 015
Q4/2023	16 166 333	36.11%	28 600 338	63.89%	44 766 671
Q2/2024	17 859 074	37.29%	30 035 910	62.71%	47 894 984
Q4/2024	15 105 496	37.61%	25 025 363	62.39%	40 158 620

LIs serve diverse customer types, ranging from natural persons, companies and trust partnerships to NPOs and other types of institutions that cater to various financial needs. The composition of a LI’s customer base can increase exposure to finance crime, such as engaging with customers from high-risk industries, geographies and professions, among other factors. LIs must therefore take this into account when appreciating the level of ML/TF/PF risks specific to their institutions.

Figure 5: Life insurance sector customer base as of December 2024



7.2.2 High-risk customers

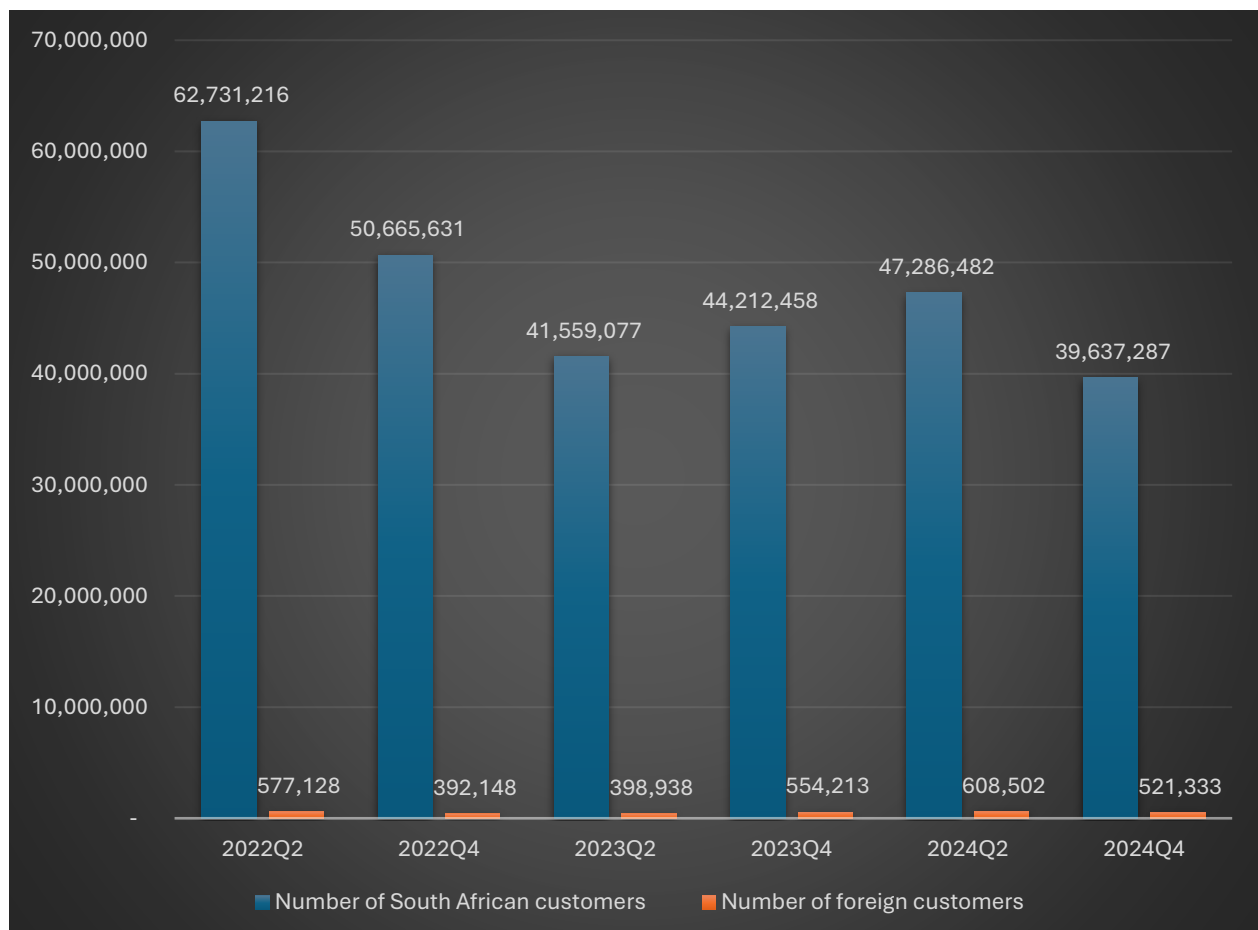
Customers classified as higher-risk within the LI sector may include individuals previously reported by a life insurer or an intermediary to the FIC, or those operating in industries or professions considered high-risk from an ML/TF/PF perspective, such as NPOs and cash-intensive businesses. Additionally, high-risk customer segments encompass PEPs, non-resident account holders, as well as legal persons and arrangements.

7.2.2.1 Foreign customers

Foreign customers are either individuals who are not citizens of South Africa or entities that are not located in South Africa. The presence of foreign customers in the LI sector may present some ML/TF/PF risks as foreign clients, especially if they are from high-risk jurisdictions. These foreign customers may use LI products to launder money or move and store funds to finance illicit activities. Additionally, conducting due diligence on foreign customers can be challenging, as premium payments or payouts often involve cross-border fund transfers, increasing risks.

Foreign customers constitute a minor proportion of the customer base for LIs in South Africa, with numbers declining from 577 128 in Q2/2022 to 521 333 in Q4/2024. However, their share of the total customer base has risen from 0.9% in Q2/2022 to approximately 1.27% in Q4/2024.

Figure 6: South African customers versus foreign customers



Among the top 5 LIs, the share of foreign customers was 39% in Q4/2024, showing an increase in foreign customers compared to Q2/2022, when they represented 33% of the total customer base.

The majority of the LI sector primarily serves South African customers, accounting for 69% of the customer base. Compared to the top 5 LIs, the rest of the industry has a more traditional customer base, with fewer international connections.

Table 3: Top 5 versus the rest of LIs – South African clients

Top 5 LIs			Rest of LIs		
Quarter	SA clients	%	SA clients	%	Total SA clients
Q2/2022	17 513 582	28%	45 217 634	72%	62 731 216
Q4/2022	16 865 482	33%	33 800 149	67%	50 665 631
Q2/2023	12 170 059	29%	29 389 018	71%	41 559 077
Q4/2023	13 985 709	32%	30 226 749	68%	44 212 458
Q2/2024	17 669 765	37%	29 616 717	63%	47 286 482
Q4/2024	12 418 464	31%	27 218 823	69%	39 637 287

Table 4: Top 5 versus the rest of LIs – foreign clients

Top 5 LIs			Rest of LIs		
Quarter	Foreign clients	%	Foreign clients	%	Total foreign clients
Q2/2022	191 409	33%	385 719	67%	577 128
Q4/2022	144 168	37%	247 980	63%	392 148
Q2/2023	150 199	38%	248 739	62%	398 938
Q4/2023	236 326	43%	317 887	57%	554 213
Q2/2024	297 493	49%	311 009	51%	608 502
Q4/2024	203 856	39%	317 477	61%	521 333

7.2.2.2 Politically exposed persons

PEPs present significant ML/TF/PF risks within the LI sector due to their influential positions and access to significant financial resources, making them particularly vulnerable to corruption and bribery, which can result in the accumulation of illicit wealth.

These individuals may use LI products to launder proceeds from corruption by purchasing high-value policies, making large premium payments and/or engaging in complex transactions that obscure the origins of the funds. The flexibility and investment features of certain LI products, such as endowment insurance and capital redemption policies, further increase the risk of misuse by PEPs.

Domestic PEPs (DPEPs) are individuals holding or having held prominent public positions within South Africa, such as government officials, senior executives in state-owned enterprises and key political figures. Their positions inherently expose them to a higher risk of involvement in corruption, bribery and ML, necessitating EDD measures by LI companies to mitigate associated risks.

Foreign PEPs (FPEPs) include individuals holding or having held prominent positions in foreign countries, such as government officials, senior political figures, military leaders and heads of state-owned enterprises. FPEPs may pose additional risks due to the complexities of foreign political environments, jurisdictional variations in regulation, complicated cross-border transactions and heightened susceptibility to cross-border financial crimes by virtue of their positions and influence, complicating detection and monitoring of illicit activities.

The risks associated with PEPs in the LI sector are, however, limited, as PEPs represent only a small part of the overall LI customer base, as demonstrated below.

Table 5: DPEPs versus FPEPs

Period	Number of DPEPs	%	Number of FPEPs	%	Customer base
Q2/2022	5 703	0.0090%	707	0.0011%	63 308 344
Q4/2022	5 300	0.0104%	340	0.0007%	51 057 779
Q2/2023	5 721	0.0136%	4 640	0.0111%	41 958 015
Q4/2023	6 434	0.0144%	4 802	0.0107%	44 766 671
Q2/2024	8 368	0.0175%	175	0.0004%	47 894 984
Q4/2024	8 097	0.0201%	180	0.0004%	40 158 620

As of December 2024, there were 8 097 DPEPs in the LI sector, representing 0.0201% of the LI customer base, of which 5 766 (or 71%) were customers of the top five LIs.

As of December 2024, there were 180 FPEPs in the LI sector, representing 0.0004% of the LI customer base, of which 162 (or 90%) were customers of the top five LIs.

Table 6: Top 5 versus the rest of LIs - DPEPs

	Q2/2022	Q4/2022	Q2/2023	Q4/2023	Q2/2024	Q4/2024
Top 5 LIs	3 444	2 275	2 943	4 350	5 952	5 766
Rest of industry	2 259	3 025	2 778	2 084	2 416	2 331

Table 7: Top 5 versus the rest of LIs - FPEPs

	Q2/2022	Q4/2022	Q2/2023	Q4/2023	Q2/2024	Q4/2024
Top 5 LIs	677	322	118	138	159	162
Rest of industry	30	18	4 522	4 664	16	18

7.2.2.3 Non-profit organisations

NPOs are recognised nationally as potentially vulnerable to TF abuse, particularly where they operate cross-border, handle cash or send funds to higher-risk jurisdictions.

The 2024 TF NRA highlights vulnerabilities around remittances, informal money or value-transfer services, cross-border cash transactions, weaknesses in documentation systems, and the risk that a small subset of NPOs transmitting funds to conflict-affected areas may be misused. The 2024 TF NRA does not however identify LIs as a primary TF channel.²⁴

Public reporting specific to the NPO sector confirms the risk context while also noting that, for the period assessed, South Africa's TF convictions did not relate to NPOs and NPOs were not used to execute, plan or fund the prosecuted terrorist activities.²⁵

Within the LI sector, the plausible touchpoints with NPOs are limited and generally indirect. NPOs may appear as group policyholders for employee or volunteer cover, as third-party premium payers in donor-funded arrangements or as beneficiaries of charitable assignments, which are subjected to event-driven CDD and pre-payout verification, and lack the payment velocity typically observed in higher-exposure TF channels. There is currently no public evidence that NPOs have been abused through South African LI products for ML, TF or PF. The risk for life insurers therefore remains contingent and is best mitigated through targeted controls rather than broad exclusion.

As at December 2024, the LI sector included 1 508 NPO customers, of which 1 357 were registered and 151 were not registered with the NPO Directorate. Registration under the NPO Act is voluntary; however, non-registration may reduce transparency and can increase reliance on enhanced due diligence where risk indicators are present.

²⁴ See <https://www.fic.gov.za/wp-content/uploads/2024/06/National-risk-assessment-%E2%80%93-Terrorist-financing-national-risk-assessment-2024.pdf>

²⁵ See <https://www.fic.gov.za/wp-content/uploads/2024/04/Terrorist-financing-risk-assessment-for-the-NPO-sector-in-South-Africa.pdf>

Figure 7: Registered and unregistered NPOs

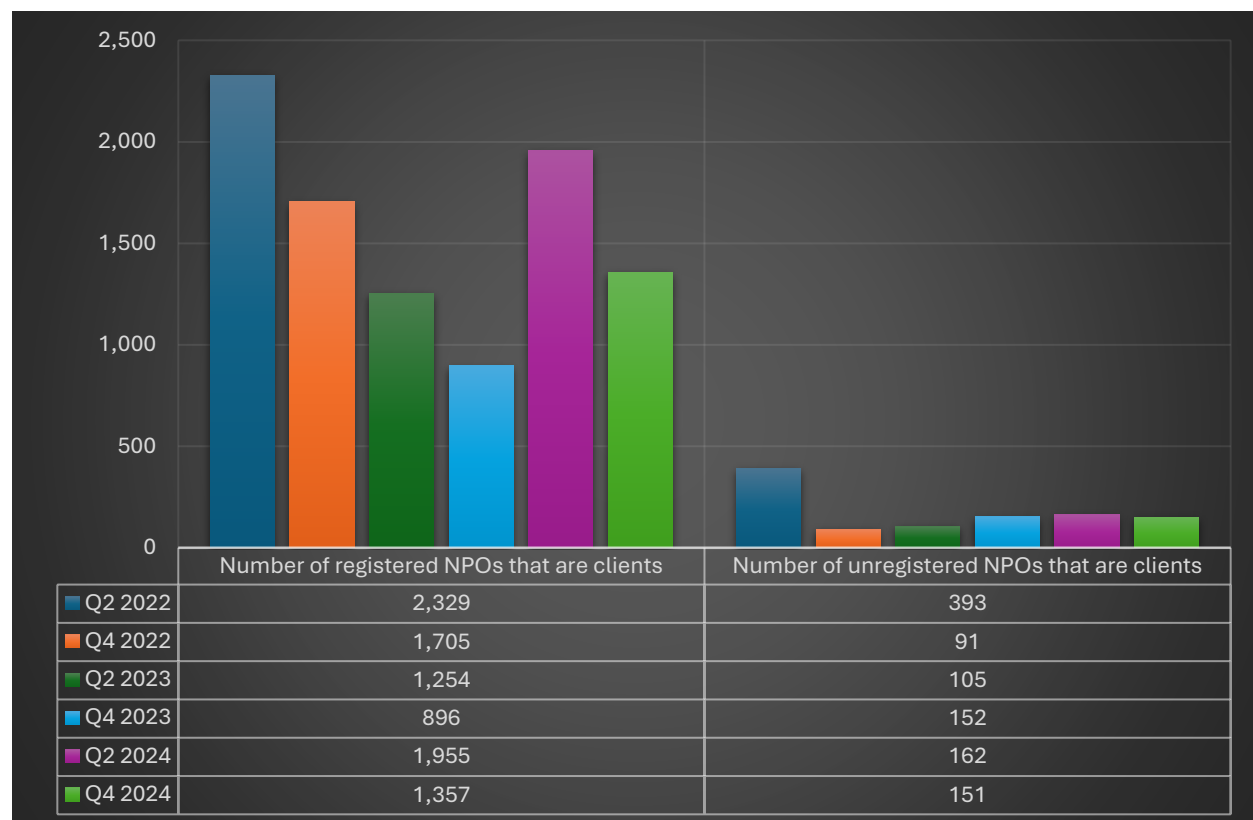


Table 8: Top 5 versus the rest of LIs - NPOs

Quarter	Total NPO base	Top 5 NPO base	Rest of industry NPO base
Q2/2022	2 722	2 227 (82%)	495 (18%)
Q4/2022	1 796	1 326 (74%)	470 (26%)
Q2/2023	1 359	1 163 (86%)	196 (14%)
Q4/2023	1 048	823 (79%)	225 (21%)
Q2/2024	2 117	1 776 (84%)	341 (16%)
Q4/2024	1 508	1 329 (88%)	179 (12%)

7.2.2.4 Legal persons and arrangements

Legal persons and arrangements, such as corporate companies, trusts, foreign trusts and partnerships, generally present significant ML/TF/PF risks.

Corporate companies are vulnerable due to issues with BO transparency, complex structures and potential misuse for illicit activities. Trusts, including foreign trusts, pose unique ML/TF/PF risks because of their complexity, opacity and potential for misuse in financial crimes. The multi-jurisdictional nature of foreign entities further complicates risk management, necessitating rigorous assessment and continuous monitoring.

However, legal persons and arrangements constitute a small percentage of the overall LI customer base, with 180 251 corporate clients as at December 2024, representing 0.42% of the LI customer base

The top 5 LIs in South Africa collectively service 118 553 corporate entities, accounting for 66% of all corporate clients in the LI sector. Foreign corporate entities make up an even smaller portion, with 1 974 foreign corporate entity clients, accounting for just 0.0046% of the LI customer base.

7.2.3 Dormant policies

Dormant policies refer to policies that remain inactive for extended periods of time and pose inherent ML/TF/PF risks, with criminals attempting to reactivate old accounts and move funds before closing the accounts again.

The reactivation of a dormant policies may be problematic if there is inadequate scrutiny and customer verification, thus making them attractive targets for unauthorised access, identity theft or account manipulation.

The data on dormant policies revealed a consistent trend of over 1 million dormant policies over the review period for the South African LI sector and represents 2.7% of the total LI customer base, equally spread between the top 5 LIs and the rest of the industry.

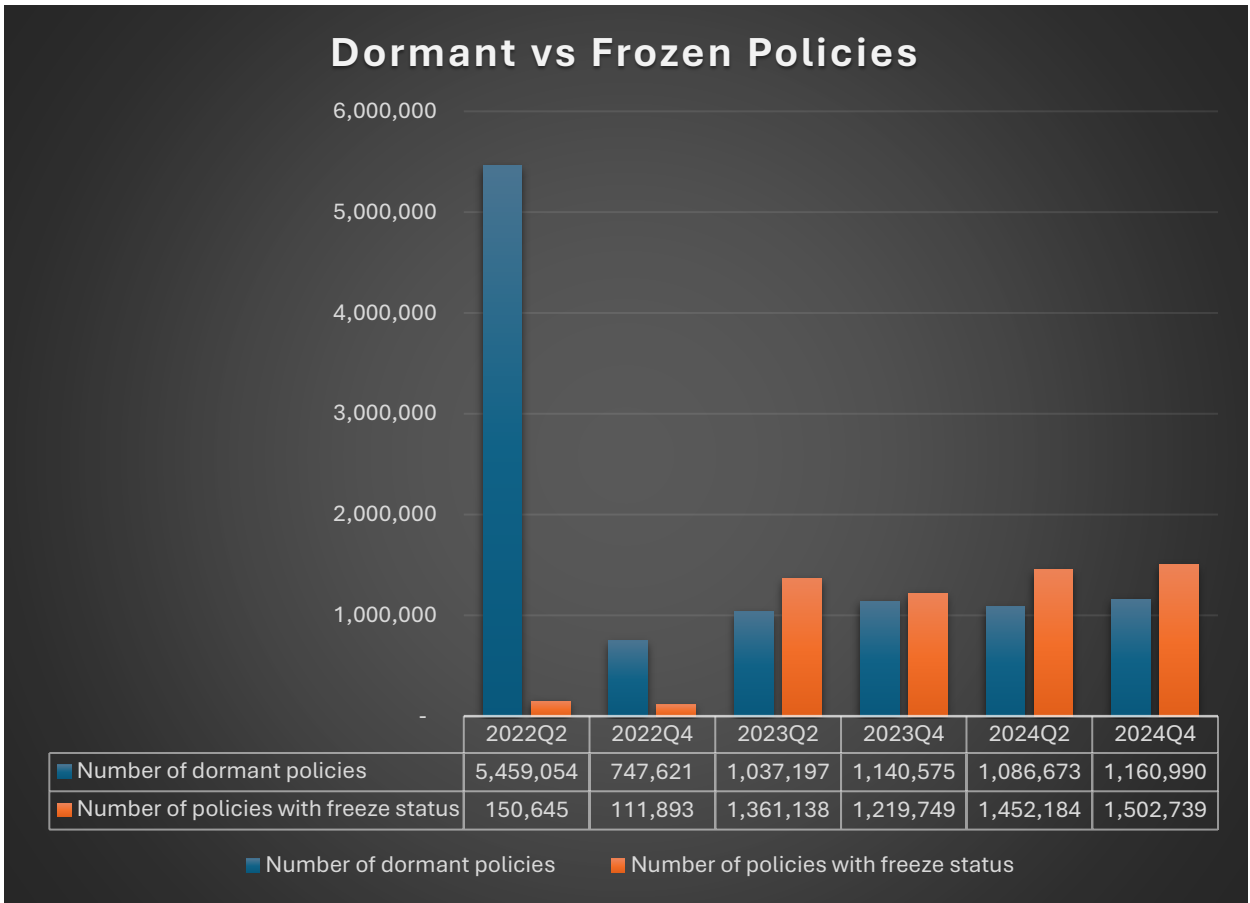
7.2.4 Frozen policies

Frozen policies are policies that are placed on hold because of a legal requirement or a compliance concern, such as a TFS obligation, a court order or an internal investigation into suspected fraud, identity mismatch or other suspicious activity, which blocks changes, withdrawals, surrenders, loans and payouts until the matter is resolved.

Criminals may attempt to lift a freeze by submitting false or altered documents or by misrepresenting the reason(s) for the reinstatement of the status of the policy, , which is why any unfreeze must follow documented checks and senior approval.

As of 31 December 2024, frozen polices represented 3.5% of the total LI customer base in South Africa. The substantial increase in frozen policies from 150 645 in Q2/2022 to 1 502 739 in Q4/2024, may reflect a range of factors, including enhanced compliance measures, improved detection of suspicious activities or heightened regulatory scrutiny.

Figure 8: Policy inactivity in the life insurance sector - dormant and frozen policies



7.3 Geographical risks

Geographical risks cover the countries linked to a life insurer's customers and related parties, for example the place of incorporation or registration and the primary place of business, the countries where the life insurer operates through subsidiaries/affiliates/branches, and the cross-border transactions facilitated by the LI. Geographic exposure to FATF's 'call for action' jurisdictions and jurisdictions under 'increased monitoring' or to financial centres with weak oversight can elevate exposure to ML/TF/PF.²⁶

The South African LI sector is primarily domestic, with most onboarding, servicing and payouts occur within national borders, and cross-border client and payment exposure is limited relative to banking, which moderates the inherent geographic risk in the sector.

Based on the supervisory information available for Q4/2024, no policyholders, premium payers, assignees or beneficiaries were reported as domiciled in FATF's 'call for action' jurisdictions, i.e. Iran, the Democratic People's Republic of Korea and Myanmar.

7.4 Delivery channel risks

Delivery channel risks refer to the potential for ML/TF/PF activities to be facilitated through the methods and channels used by LI companies to distribute their products and interact with clients, and the methods of account origination.

Delivery channels are typically divided between face-to-face channels (including walk-in customers) and non-face-to-face channels that pose certain unique risks of abuse.

Illicit actors may exploit delivery channels that limit an institution's understanding of its customers' or policyholders' identities and/or activities. These channels significantly influence the risk profile of the sector, as some may offer higher levels of anonymity or reduced transparency.

²⁶ See <https://www.fatf-gafi.org/en/publications/High-risk-and-other-monitored-jurisdictions/Call-for-action-october-2025.html>

7.4.1 Non-face-to-face delivery channels

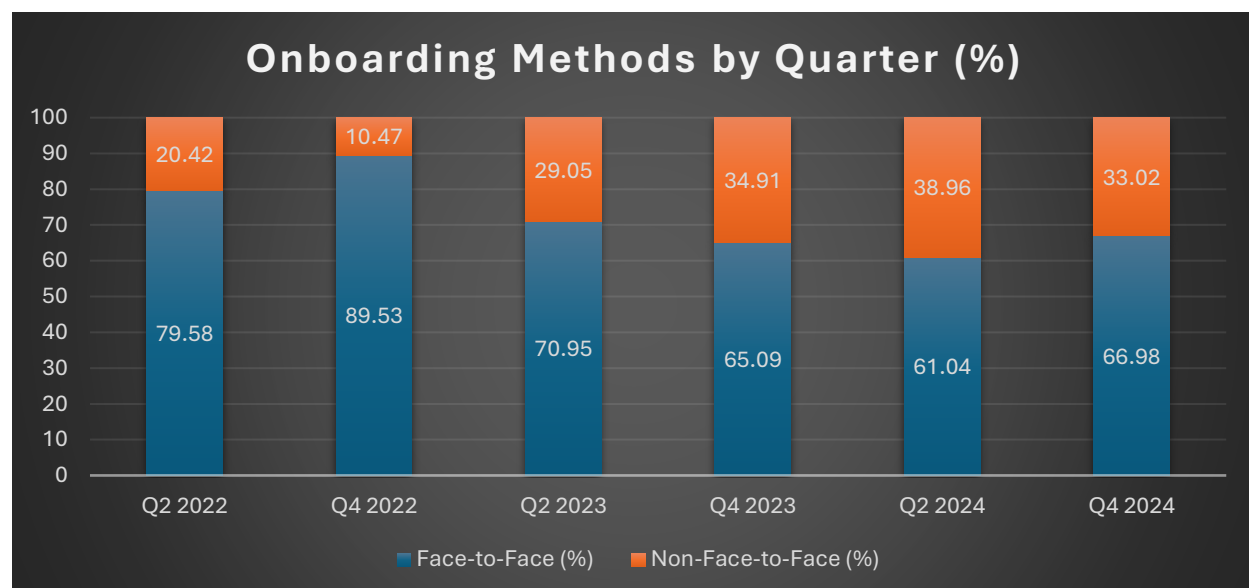
Non-face-to-face onboarding can raise identification risk where a LI cannot reliably establish and verify a person's identity.

In South Africa, accountable institutions increasingly mitigate this risk by verifying identity data against the Department of Home Affairs (DHA) records, including the National Population Register and biometric services such as the Automated Biometric Identification System. Banks already use DHA biometric verification at point of service, and the DHA has announced upgrades to its digital verification platform. LIs typically access these checks directly or via accredited service providers as part of a risk-based approach under the FIC Act.²⁷

For the period Q2/2022 to Q4/2024, face-to-face onboarding declined materially. Among the top 5 LIs, volumes fell from 6.2 million to 4.9 million. Across the rest of the industry, volumes fell from 17.3 million to 8.9 million.

Over the same period, non-face-to-face onboarding changed rather than uniformly increased. The top 5 LIs moved from 1.26 million in Q2/2022 to 839 819 in Q4/2024, while the rest of the industry increased from 4.8 million to 5.99 million. This mixed trend underscores the fact that risk depends on the strength of digital controls rather than on the channel alone.

Figure 8: Onboarding methods – face-to-face versus digital onboarding



²⁷ See <https://www.sanews.gov.za/south-africa/home-affairs-upgrades-digital-verification-system>

The shift towards non-face-to-face onboarding introduces additional ML/TF/PF risks due to challenges in verifying customer identities. Without robust verification processes, non-face-to-face methods can expose LIs to the risk of identity fraud and fraudulent documentation and consequential illicit activities.

The decline in face-to-face onboarding evidence increasing reliance on digital processes, which may not yet match the security or compliance standards of traditional methods. As digital processes grow, vulnerabilities to exploitation rise, especially if authentication measures are not continuously upgraded.

7.4.2 Third-party delivery channels

Life insurers distribute their products and services through independent financial advisers, brokers and tied agents, representative and binder brokers, bancassurance arrangements, funeral parlour channels as well as, in limited cases, foreign brokers.

Third-party distribution reduces the insurer's direct line of sight to customers and can weaken first-line challenge if oversight is not strong, especially where the intermediary performs elements of CDD.

Among the top 5 LIs, third-party distribution is extensive by value and complexity. Large insurers rely heavily on independent financial advisers, binder brokers and bancassurance. The product mix includes investment-linked and single-premium endowment policies. A small share involves foreign brokers or non-resident customers. This profile increases exposure to cross-border elements and TFS touchpoints. TF/PF exposure is therefore relatively more relevant, driven by TFS screening, third-party premium payers and pre-payout checks on beneficiaries and assignees.

Among the smaller LIs, third-party distribution is common by volume through tied agents and funeral parlours, and is mostly domestic. Cash or cash-like premium collection, manual processes and variable documentation practices raise ML and fraud risk during onboarding and at payout. TF exposure is generally lower than for larger LIs because cross-border elements are limited, but weaknesses in TFS screening and event-triggered CDD, can still create residual risk.

Third-party channels are used by both segments. Large LIs show higher relative exposure to TF/PF through cross-border customers, third-party premium payers and complex investment products. Smaller LIs and assistance-business writers show higher relative exposure to ML and fraud through cash-intensive, document-light distribution and weaker oversight maturity.

8. Mitigating controls

Assessing the impact of identified mitigating controls on the threats and vulnerabilities faced by LIs is crucial and involves evaluating how effectively these controls reduce the potential consequences of identified risks.

8.1 Regulatory environment

South Africa's life insurance sector operates within a well-developed regulatory framework for the protection of policyholders, supporting financial stability and the mitigation of financial crime risks (including ML/TF/PF).

Key components of the regulatory environment include:

Prudential Authority: The PA is established in terms of section 32 of the Financial Sector Regulation Act 9 of 2017 (FSRA), and is responsible for the prudential regulation of all insurers and includes licensing, issuing prudential standards, and prudential supervision focused on safety and soundness, governance, and risk management. The PA is also the designated supervisory body for life insurers in terms of the FIC Act.

Financial Sector Conduct Authority (FSCA): The FSCA is responsible for market conduct regulation in the insurance sector, including requirements aimed at ensuring fair treatment of customers across the product lifecycle (e.g., product design, disclosure, premium collection, claims and complaints handling). Market conduct requirements for insurers are largely set through the Regulations and Policyholder Protection Rules (PPRs) (including those historically issued under the Long-term Insurance Act framework), which the FSCA administers.

Financial Advisory and Intermediary Services (FAIS): Life insurance products are frequently distributed through financial services providers (FSPs) and representatives, who are subject to the FAIS Act requirements (including fit and proper expectations). This intermediation layer is a key part of the sector's conduct and control environment.

Financial Surveillance Department (FinSurv): The SARB's FinSurv department administers South Africa's exchange control system, under delegated authority from National Treasury, including the appointment of Authorised Dealers and ADLAs for foreign exchange transactions. While life insurers are not typically Authorised Dealers, they may be exposed to exchange control considerations through cross-border investment activity and foreign currency-related flows processed via the regulated foreign-exchange system.

The FIC Act: Life insurers are designated as accountable institutions under Schedule 1, item 8 of the FIC Act (excluding reinsurance business), under the supervisory purview of the PA. The FIC Act requires accountable institutions to implement effective AML/CFT/CPF controls, including risk management and compliance programmes, CDD, reporting, record-keeping and training.

Financial sector legislation: The Insurance Act 18 of 2017 provides the prudential legislative foundation for insurance business in South Africa, supported by the FSR Act's "Twin Peaks" architecture (prudential vs conduct supervision) and the FIC Act's AML/CFT/CPF obligations applicable to life insurers as accountable institutions.

8.2 Market entry

Market entry requirements serve as the front line of defence for regulators and supervisors, ensuring that only entities meeting specific criteria are permitted to operate within the LI sector. This includes implementing appropriate market entry policies and procedures, such as licensing, registration and fit and proper checks to assess the suitability of individuals and entities seeking entry.

The PA is responsible for regulating and supervising financial institutions as informed by the relevant empowering financial sector legislations, to enhance and protect financial stability in South Africa. The licensing requirements for LIs in South Africa are robust and comprehensive, ensuring that only institutions meeting stringent criteria can operate within the sector.

The PA oversees the licensing process, which includes rigorous assessments of the financial resources, governance structures, risk management practices and internal control systems of applicants. Applicants are expected to demonstrate their fitness and

propriety, their ability to maintain financial stability and adhere to sound risk management protocols.

In 2023, the PA embarked on a market entry review to ensure that the beneficial owners of financial institutions, including life insurers, are identified and that their fitness and propriety is assessed. The result of the review confirmed that the 429 identified beneficial owners of the LIs operating in South Africa at that time, were fit and proper, enhancing the resilience of the LI sector to ML/TF/PF risks.

8.3 Internal controls

The FIC Act obliges LIs to establish effective AML/CFT/CPF programmes, conduct CDD, report relevant transactions to the FIC, provide training to its employees and keep records of all prescribed documents, with BoD and/or senior management of LIs required to ensure that the institution and its employees comply with these FIC Act obligations.

The PA, as the supervisory body, ensures compliance by LIs with the FIC Act obligations by conducting FIC Act inspections to assess levels of compliance with the various obligations.

FIC Act inspections conducted by the PA over the review period highlight the following common non-compliance areas.

8.3.1 Risk Management and Compliance Programme

One of the most pervasive non-compliance issues identified was the inadequate development, documentation and implementation of a Lis Risk Management and Compliance Programme (RMCP) in terms of section 42 of the FIC Act, with many institutions failing to develop, maintain and/or implement effective RMCPs that fully complied with the requirements of the FIC Act.

Across the review period, there has been measurable improvement in RMCPs, particularly among the larger LIs. Enhancements have included stronger business-wide risk assessments, clearer risk-rating methodologies, better alignment between product

and channel risks and control design, as well as more complete documentation of TFS screening and event-triggered CDD at beneficiary changes, assignments, loans, surrenders and before payout. These improvements align with the FIC's guidance that an RMCP must reflect all the elements in section 42 of the FIC Act and show how risks are identified, assessed, mitigated and managed in practice.

However, there are persistent gaps observed in a subset of mostly small to medium sized LIs, including incomplete board of director approval evidence or version control, inconsistent mapping from the business risk assessment into control standards, limited governance over intermediaries for CDD and insufficient management information to demonstrate ongoing effectiveness. Addressing these gaps is necessary to meet the outcomes envisaged in section 42 and related FIC guidance.

8.3.2 Business risk assessment

In accordance with section 42 of the FIC Act, all LIs are required to identify, assess, monitor, mitigate and manage the risk that their products or services could be exploited for ML, TF or PF. A well-structured business risk assessment (BRA) is therefore critical in ensuring that institutions understand their inherent exposure to illicit-financing risks and apply proportionate and effective controls.

The FIC Act inspections conducted on LIs from January 2022 to December 2024, indicated that in some instances, BRAs were deficient, with some entities inadequately identifying or mitigating the risks associated with their business activities. A recurring issue identified was the inadequate consideration and inclusion of data in the risk assessment process. Many LIs were unable to demonstrate how they used data to identify trends, analyse risks or support decision-making.

Additionally, several entities overlooked the consideration of risk factors such as fraud, corruption and geopolitical tensions. These deficiencies led to incomplete or inaccurate risk evaluations and ineffective mitigation strategies.

The PA also conducted a BRA thematic review in 2022, with only half of the LIs submitting comprehensive enterprise-level ML/TF/PF risk assessments for review, while the other

half produced insufficient documentation. The PA subsequently engaged those LIs with deficient BRAs and required remedial action to be undertaken, following which an improvement in the quality of the BRAs was noted.

8.3.3 Customer due diligence

CDD policies and procedures are critical for verifying the identity of customers and assessing their risk profiles. CDD measures include collecting customer and BO information, assessing the purpose and intended nature of the business relationship, and screening for PEPs, negative news and sanctions.

The identity and status of the parties to LI contracts, including the beneficiary and the beneficial owners, is critical as it provides critical insights into the natural persons who ultimately control or benefit from LI policies and transactions and determines the extent of the controls required to mitigate the particular risk associated with the client.

The PA's Insurance Directive 1 of 2022, directs LIs to obtain the identity of the beneficiaries of LI policies and to incorporate the beneficiaries as a risk factor when determining the overall ML/TF/PF risks posed by the client.

FIC Act inspections conducted by the PA between January 2022 and December 2024, highlighted non-compliance with CDD requirements by some LIs, who failed to adequately identify and verify client information as well as source(s) of funds and wealth for high-risk clients, especially where EDD was warranted.

Additionally, some LIs often failed to properly categorise or assess their clients' risks based on their profiles or lack of factors being considered, leading to gaps in the overall risk management process.

The inspections also revealed inconsistencies in how various LIs applied their client risk-rating methodologies, with inconsistent risk assessments or clients not being risk-rated at all.

The presence of unknown-risk customers can raise concerns about potential data entry issues and compliance shortcomings, posing a risk to effective AML/CFT/CPF risk management.

Based on the risk return data, the number of unknown-risk customers within the LI sector decreased significantly from 4.9 million in Q2/2022 to 259 706 in Q4/2024, reflecting an improvement in the application of the risk-based approach. This decline was particularly marked for the top 5 LIs, where the percentage of unrated customers dropped significantly over the same period, from 6.7% to 0.6%. This demonstrates good change in compliance behaviour and an improved understanding of risk.

As of December 2024, only 0.6% of the LI sector's customer base was not risk-rated, with the majority of these non-risk-rated clients in the rest of the industry.

Shortcomings were also noted in the ongoing monitoring of customer relationships and transactions, underscoring the need for continuous improvement in compliance practices. This risk is however mitigated as the volume of transactions is infrequent in nature but rather occurs at defined points in the client cycle, and is dependent on the product type.

8.3.4 Beneficial ownership

Incomplete or inaccurate BO data remains a risk, particularly for complex corporate entities and trusts. The significant percentage of clients with undetermined BO poses inherent ML/TF/PF risks.

Similarly, the determination of effective control, defined as the ability to influence or direct an entity's activities, which may manifest through ownership, voting rights, decision-making authority and/or informal influence, should also be identified by accountable institutions following a risk-based approach.

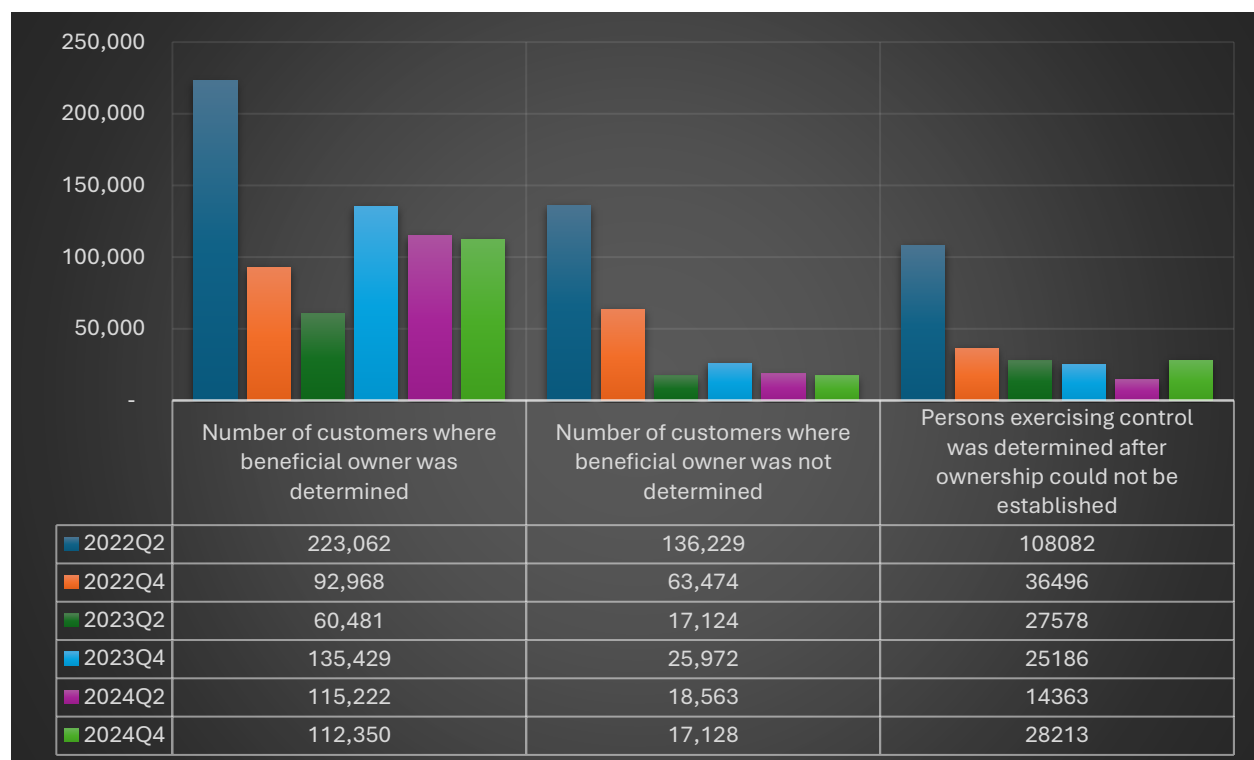
During the review period, the PA noted an increase in the determination of control by life insurers.

Table 9: Beneficial ownership determination

Period	BO for top 5	%	BO for rest of industry	%	Total BO
Q2/2022	90 889	40.75%	132 173	59.25%	223 062
Q4/2022	19 652	21.14%	73 316	78.86%	92 968
Q2/2023	49 802	82.34%	10 679	17.66%	60 481
Q4/2023	58 276	43.03%	77 153	56.97%	135 429
Q2/2024	30 230	26.24%	84 992	73.76%	115 222
Q4/2024	21 048	18.73%	91 302	81.27%	112 350

As of December 2024, up to 50.4% of life insurers had determined control for their clients, which were legal persons and arrangements. This demonstrates improved compliance behaviour and an improved understanding of risk.

Figure 9: Determining the beneficial ownership of clients



8.3.5 Targeted financial sanctions screening

South Africa gives effect to United Nations Security Council (UNSC) TFSs through sections 26A, 26B, 26C and 28A of the FIC Act and related provisions of the Protection of Constitutional Democracy against Terrorist and Related Activities Act 33 of 2004, with the FIC publishing the South African TFS List and issues notices under section 26A of the FIC Act.

Accountable institutions must screen against this FIC's TFS List, freeze property without delay on a true match, not make funds or services available to such clients/beneficiaries, and file a section 28A report with the FIC.

For life insurers, required screening covers the policyholder, premium payer, beneficial owner or controlling person, authorised representative, assignee and beneficiary, and must occur at onboarding, whenever data changes and before payout.

The use of additional foreign lists, such as those of the US Office of Foreign Assets Control (OFAC) or European Union (EU), is optional and may be applied as a risk-based overlay, but it is not a South African legal requirement.²⁸

In 2024, the PA conducted a thematic review of the effectiveness of the TFS screening mechanisms across the LI sector, revealing the following key insights:

- Most institutions screen against comprehensive lists, including those from the UNSC, OFAC, the EU, HM Treasury and the FIC.
- Some institutions also use specialised lists addressing high-risk jurisdictions or sector-specific risks.
- The LI sector's reliance on automated tools and established processes helps mitigate TFS-related risks.
- For some LIs, there are gaps in manual interventions, delayed updates and less frequent screenings, which increases vulnerabilities.

²⁸ See <https://www.fic.gov.za/wp-content/uploads/2024/02/2027.2-PCC-PCC-44A-Targeted-financial-sanctions.pdf>

The deficiencies expose some life insurers to substantial TF/PF risks, introducing significant vulnerability and underscoring the need for consistent sanction-screening application and robust practices to safeguard against sanctions evasion and associated financial crime risks.

8.3.6 Transaction monitoring

LIs are required to establish policies, procedures, processes and systems to continually monitor customer transactions, identify patterns and red flags that may indicate ML, TF, PF or other illegal activities by identifying deviations from expected customer activities or behaviours.

The inspections conducted by the PA between January 2022 and December 2024 revealed concerns pertaining to the monitoring and detection of suspicious transactions by LIs, with ineffective transaction monitoring practices, particularly in the investigation and reporting of suspicious activities flagged by automated systems.

Additionally, non-compliance with reporting timelines and requirements was noted, potentially resulting in suspicious transactions being reported after the required time frames.

These findings underscore the need for LIs to enhance their transaction monitoring systems and to ensure timely and accurate reporting to mitigate financial crime risks.

8.3.7 Reporting

The FIC Act obliges LIs to report certain types of transactions or activities to the FIC, within a stipulated period.

During the review period, the FIC assessed the quality of the suspicious transaction reports (STRs) and suspicious activity reports (SARs) submitted by the LI sector, which generally contained the necessary information for thorough investigations, particularly in tracing the flow of funds and identifying the networks involved in illicit activities.

The FIC confirmed that the STRs/SARs adhered to the prescribed reporting format, with key fields such as the reason and action sections completed in adequate detail. Overall, the quality of these reports met the FIC's expectations for investigative due diligence, providing a strong foundation for further investigation and analysis.

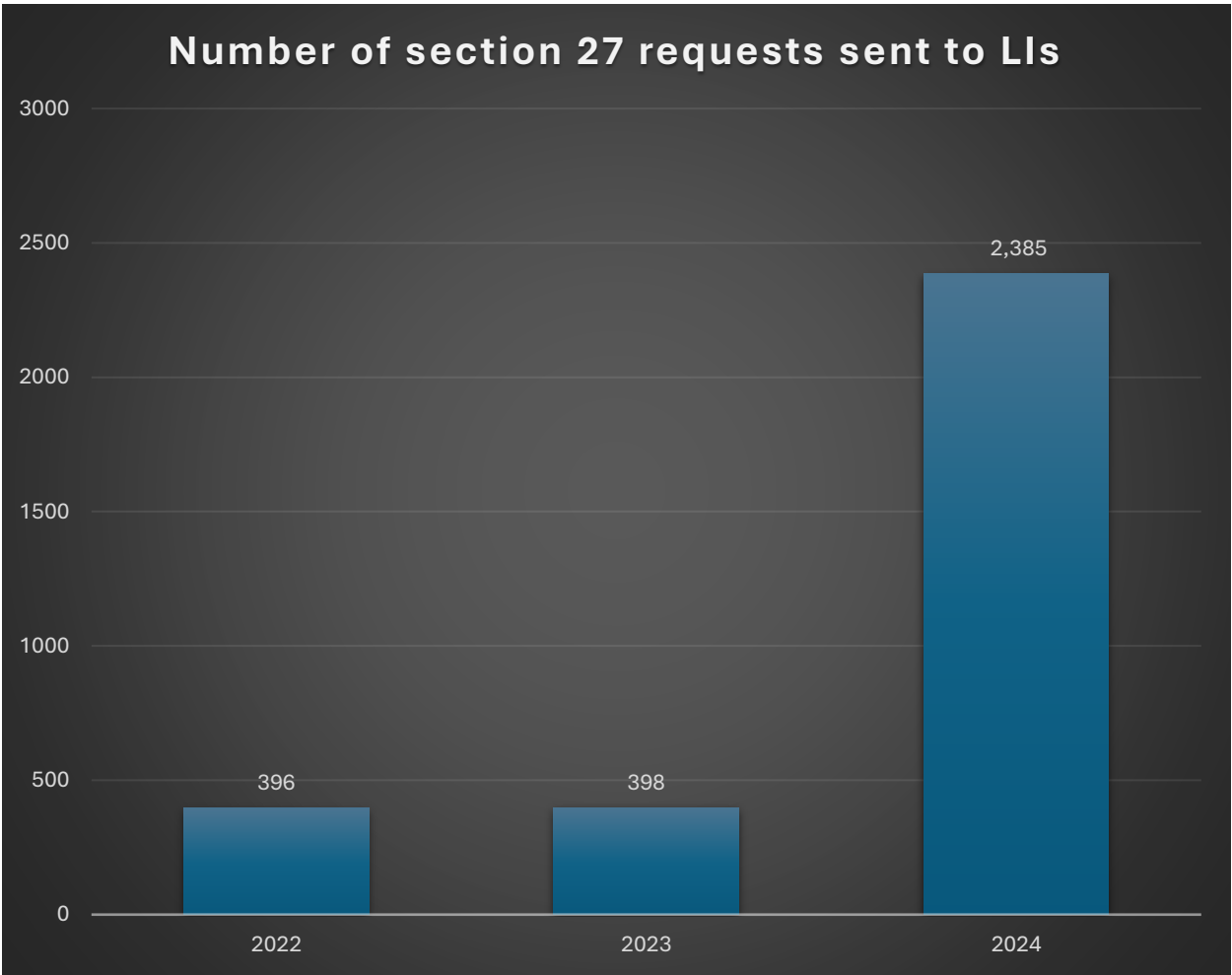
Table 10: Life insurers' reporting to the FIC (2023-2024)

Offences	2023				2024			
	STRs	SARs	TFAR	TPR	STRs	SARs	TFAR	TPR
Corruption/bribery	3	3	0	0	13	14	0	0
Cybercrime	0	3	0	0	79	5	0	0
Drug trafficking	0	1	0	0	3	3	0	0
Environmental crimes	1	0	0	0	0	1	0	0
Fraud – 419 scams	1	0	0	0	3	0	0	0
Fraud – general	15	49	0	0	57	155	0	0
Fraud – public sector/tenders	27	0	0	0	10	2	0	0
Illegal dealing in precious metals	0	0	0	0	1	0	0	0
Kidnapping	0	0	0	0	0	2	0	0
Modern slavery/human trafficking	0	0	0	0	1	2	0	0
Smuggling	0	0	0	0	0	3	0	0
Terrorism/terrorism financing	0	0	1	0	1	3	2	1
Theft/robbery	1	0	0	0	3	2	0	0
Total	48	56	1	0	171	192	2	1

However, there were some concerns regarding the timeliness and completeness of responses from the LI sector to requests for information from the FIC in terms of section 27 of the FIC Act, with a notable proportion of requests either not responded to at all or answered later than required. This impacts the FIC’s ability to conduct effective analysis, reducing its capacity to proactively identify financial crime risks and support law enforcement in combating ML/TF/PF.

In 2023, 39% of the requests from the FIC to LIs went unanswered, rising to 46% in 2024. Additionally, 16% of all responses were submitted late in both years. Timely responses to the FIC accounted for only 44% in 2023 and declined to 38% in 2024. These figures highlight the persistent challenges in compliance and responsiveness, underscoring the need for improved internal processes and the prioritisation of regulatory obligations within the sector.

Figure 10: Responses to section 27 requests



8.3.8 Training

In terms of section 43 of the FIC Act, LIs must provide ongoing training to its employees to enable them to comply with the provisions of the FIC Act and the institution's RMCP.

Training programmes are crucial for ensuring employees understand their AML/CFT/CPF roles and responsibilities as well as how internal controls manage illicit finance risks. These programmes should enable employees to identify and report red flags signalling illicit activity.

Training should include new hire sessions, annual refreshers, and role-based training for staff with financial crime compliance-related duties and sessions for the BoD and senior management.

During the review period, the inspections conducted by the PA revealed compliance deficiencies and gaps in the implementation and effectiveness of AML/CFT/CPF training requirements across the LI sector. A notable issue was the lack of consistent ongoing training, vital for raising and maintaining awareness amongst employees of the LIs AML/CFT/CPF obligations and ensuring better regulatory compliance.

8.3.9 Record keeping

In terms of sections 22, 22A, 23 and 24 of the FIC Act, LIs must keep CDD and transaction records for at least five years and inform the FIC and the supervisory body if a third party is appointed to fulfil the LI's record-keeping obligations.

Proper, accurate and comprehensive record keeping helps LIs maintain transparency, manage risks, prevent financial crimes, provide clear audit trails, support regulatory inspections and protect customer information.

During the review period, inspections by the PA revealed that some LIs were non-compliant with their record-keeping obligations by failing to maintain the prescribed records.

8.3.10 Governance

Section 42A of the FIC Act obligates the Board of directors and/or senior management of a LI to ensure that the institution and its employees comply with the provisions of the FIC Act and require the appointment of a compliance officer, with sufficient competence and seniority, to assist the BoD and/or senior management in ensuring compliance with the FIC Act.

A strong governance framework ensures that LIs compliance departments have the authority, independence, resources and information needed to manage financial crime compliance risks. It includes clearly documented AML/CFT/CPF roles, responsibilities, reporting lines and escalation channels to the board and/or senior management. A clear compliance structure and the role of senior management in setting the ‘tone from the top’ are crucial for effective governance of LIs.

During the review period, the PA’s inspections highlighted that some entities evidenced shortcomings in their governance structure, by not establishing a robust compliance function and failing to assign dedicated staff to ensure compliance with the FIC Act, impacting the effectiveness of entities’ AML/CFT/CPF programmes.

The PA issued remedial actions to the LIs, and progress to date has demonstrated improvement in their governance frameworks.

8.4 Supervision

Sufficient authority and capacity are important for AML/CFT/CPF supervisors to conduct effective risk-based supervision (e.g. off-site and on-site inspections and thematic reviews). Supervisors should also be empowered to impose administrative sanctions, issue warnings and refer potential criminal activity to law enforcement authorities, ensuring that regulated institutions comply with their AML/CFT/CPF obligations and address identified weaknesses promptly. Supervisors should also provide guidance, training and awareness-raising initiatives to both regulated entities and supervisory staff to continuously understand regulatory requirements and emerging risk areas.

The PA is responsible for regulating and supervising life insurers, as informed by the financial sector legislation of South Africa and is a dedicated and empowered supervisor with sufficient financial, human and material resources.

The Financial Conglomerate Supervision Department within the PA plays a pivotal role in this mandate, overseeing a dedicated team of 27 professionals focused on AML/CFT/CPF supervision. The team is structured to ensure comprehensive oversight, with 21 members assigned to on-site supervision and 6 members focused on off-site supervision, remediation and enforcement, ensuring a balanced approach to both on-site and off-site supervisory activities.

Additionally, the PA is empowered to impose proportionate, effective and dissuasive sanctions. During the review period, five life insurers were subjected to enforcement action for failure to comply with their FIC Act obligations, with the primary deficiencies involving RMCP, CDD, record-keeping as well as training and reporting obligations.

The PA also conducted several specific thematic reviews on life insurers, including a detailed review of their business risk assessments, a review of the implementation of their TFS obligations and a review of their sanction-screening systems.

The PA regularly engages life insurers on outreach and capacity-building, which includes dedicated outreach sessions (both general and individualised) to life insurers to help improve their business risk assessments.

Through regular inspections, thematic reviews and ongoing monitoring, the PA identifies and addresses compliance deficiencies, enhances risk management practices and supports institutions in implementing robust controls. This oversight assists in the mitigation of financial crime risks and ensures the LI sector's resilience against ever-evolving threats.

9. Risk Ratings

9.1 Inherent Risks

Based on the above assessment, the inherent risks for the LI sector have been rated as follows:

Threat assessment

Threats	Rating
Money Laundering	Medium-high
Terrorism Financing	Low
Proliferation Financing	Low

Vulnerability assessment

Vulnerabilities	Rating
Money Laundering	Medium
Terrorism Financing	Medium-low
Proliferation Financing	Low

Inherent risk assessment

Inherent Risks	Rating
Money Laundering	Medium-high
Terrorism Financing	Medium-low
Proliferation Financing	Low

9.2 Mitigating Controls

Based on the above assessment, the effectiveness of the mitigating controls for the LI sector has been rated as follows:

Mitigating Controls	Rating
Money Laundering	Adequate
Terrorism Financing	Weak
Proliferation Financing	Weak

9.3 Residual Risks

The overall residual ML/TF/PF risks in the South African LI sector are therefore as follows:

Residual Risks	Rating
Money Laundering	Medium
Terrorism Financing	Medium-low
Proliferation Financing	Low

Annexure 1: Financial crime typologies

Between 2021 and 2023, the FIC actively analysed data from CTRs and STRs within the South African LI sector, developing key financial crime typologies and indicators which may assist accountable institutions in detecting possible suspicious activities in advance. These include:

- *Unauthorised Internet access*
Policyholder information, including banking details, is altered, resulting in funds being fraudulently redirected to perpetrators.
- *The submission of fraudulent claims*
A particular claim falsely stated that the deceased had died from unnatural causes during the KwaZulu-Natal floods. Investigations later revealed that the deceased never existed and that the documentation was either fabricated or forged.
- *Claims for deceased individuals*
Claims for individuals who passed away many years earlier suggest potential fraud involving outdated or misrepresented information.
- *No justification for the policy*
When customers fail to justify the purpose of a policy, especially where there is no apparent connection between the insured person and the client, it raises red flags about the legitimacy of the policy.
- *Large or unusual cash payments*
Individuals who cannot substantiate their financial means receive lump-sum payments for policies, leading to discrepancies between their profile and transaction patterns.
- *Transactions inconsistent with the customer's financial profile*
Customers purchase large single-premium policies without reasonable financial justification.

- *Fraudulent claims involving missing bodies*
Policyholders are reported as deceased despite no identified body, yet claims are still submitted.
- *Requests for refunds*
Overpayment of premiums with requests for refunds to third parties may indicate attempts at (ML or illicit redirection of funds.
- *Abnormal settlement instructions*
Requests for payments are directed to unrelated parties, and transactions involve third-party funds without any obvious connection to the customer.
- *Frequent changes to the customer's personal details*
Addresses, contact information, banking data and authorised signatories are frequently updated, which could indicate attempts to conceal fraudulent activities.

These indicators highlight the diverse and complex risks within South Africa's LI sector. By identifying and addressing these warning signs, the sector can better protect itself against financial crime activities, thereby supporting the broader AML/CFT/CPF efforts.

Abbreviations

AI	Accountable Institution
AML	Anti-Money Laundering
AML/CFT/CPF	Anti-Money Laundering, Counter Financing of Terrorism, and Counter Proliferation Financing
BO	Beneficial Ownership
BoD	Board of Directors
CDD	Client Due Diligence
CFT	Combating the Financing of Terrorism
CPF	Combating Proliferation Financing
CRS	Common Reporting Standard
CTR	Cash Threshold Report
CTRA	Cash Threshold Report Aggregation
DHA	Department of Home Affairs
DPEP	Domestic Politically Exposed Person
EDD	Enhanced Due Diligence
EFT	Electronic Fund Transfer
EU	European Union
FATCA	Foreign Account Tax Compliance Act
FATF	Financial Action Task Force
FI	Financial Institution
FIC	Financial Intelligence Centre

FIC Act	Financial Intelligence Centre Act 38 of 2001
FinSurv	Financial Surveillance Department
FPEP	Foreign Politically Exposed Person
FSCA	Financial Sector Conduct Authority
FSRA	Financial Sector Regulation Act 9 of 2017
GN	Guidance Note
IAIS	International Association of Insurance Supervisors
ICP	Insurance Core Principles
IFTR	International Fund Transfer Report
ISIL	Islamic State of Iraq and the Levant
LI	Life Insurance
ML	Money Laundering
ML/TF/PF	Money Laundering, Terrorism Financing and Proliferation Financing
NPA	National Prosecuting Authority
NPO	Non-Profit Organisation
NRA	National Risk Assessment
OCINDEX	The Organized Crime Index
OFAC	The United States' Office of Foreign Assets Control
PA	Prudential Authority
PCC	Public Compliance Communication
PEP	Politically Exposed Person

PF	Proliferation Financing
PIP	Prominent Influential Person
R	Rand
RMCP	Risk Management and Compliance Programmes
SA	South Africa(n)
SAR	Suspicious Activity Report
SARB	South African Reserve Bank
SARS	South African Revenue Service
SRA	Sector Risk Assessment
STR	Suspicious Transaction Report
TF	Terrorism Financing
TFAR	Terrorist Financing Activity Report
TFS	Targeted Financial Sanction
TPR	Terrorist Property Report
UNODC	United Nations Office on Drugs and Crime
UNSC	United Nations Security Council
UNSCR	United Nations Security Council Resolutions
US	United States
WMD	Weapons of Mass Destruction